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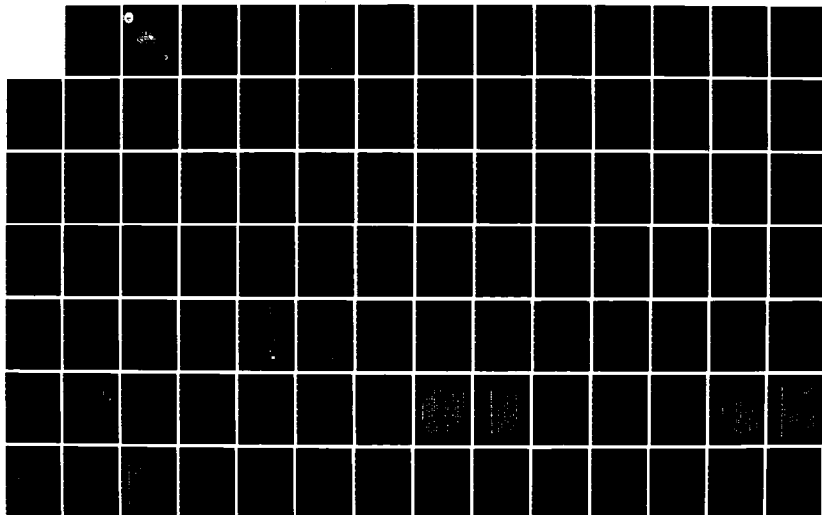
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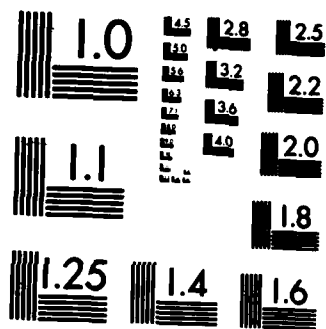
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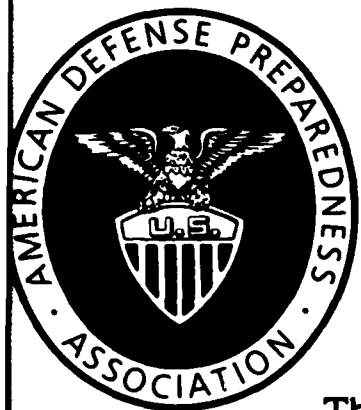
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PROCEEDINGS

The Seventh Annual Executive Seminar on
International Security Affairs



Washington, D.C.
March 16-17, 1983

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**The Seventh Annual Executive Seminar
on
International Security Affairs**

**THE CHANGING SCENE
FOREIGN MILITARY SALES
AND
TECHNOLOGY TRANSFER**

Conference Chairman:

**The Honorable Barry S. Shillito
Chairman, Teledyne International
and
Chairman of the ADPA International Affairs Division**

Sponsored By:

American Defense Preparedness Association

**Hyatt Regency Washington
Washington, D.C.**

March 16-17, 1983

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Table of Contents

Opening Remarks

General Henry A. Miley, Jr., USA (Ret.)	1
President, ADPA	
Mr. Barry Shillito	1
Chairman, Teledyne International	

Keynote Address

The Honorable Edward J. Derwinski	6
Counselor (Designate), Department of State	

Session I - Foreign Military Sales Policy

Session Chairman: Mr. Shillito

Mr. Stanley Sienkiewicz	14
Special Assistant to the Under Secretary of State for Security Assistance, Science, and Technology	
Mr. James W. Morrison	21
Director for European and NATO Policy, Office of the Assistant Secretary of Defense (International Security Policy)	

Luncheon Session

Sir Frank Cooper, GCB, CMG	42
Former Permanent Under Secretary of State, United Kingdom Ministry of Defence	

Session II - FMS Programs

Session Chairman: The Honorable Armistead I. Selden,
President and General Manager, American League
for Exports and Security Assistance

Lieutenant General Philip C. Gast, USAF	52
Director, Defense Security Assistance Agency	

Session III - FMS Procedures

Session Chairman: Mr. Selden

Colonel Gary Hagen, USAF	71
Deputy Chief, Policy and Management Division, Directorate of International Programs, Headquarters, U.S. Air Force	

Session IV - Technology Transfer Policy

Session Chairman: Mr. Leslie H. Brown
Deputy Director, Bureau of Politico -
Military Affairs, Department of State

- Mr. Denis Lamb 84
Deputy Assistant Secretary of State
for Trade and Commercial Affairs
- Dr. Stephen D. Bryen 88
Deputy Assistant Secretary of Defense
(International Economic Trade & Security Policy)

Session V - Technology Transfer Procedures

Session Chairman: Mr. Brown

- Mr. Talbot S. Lindstrom 106
Deputy Under Secretary of Defense
(International Programs & Technology)
- Mr. Dan Hoydysh 109
'CHM Operating Committee, Department of Commerce
- Mr. John Schmick 113
Vice President, Boeing International Corporation
- Mr. David Shore 122
Vice President, Government Systems Division,
RCA Corporation

Closing Session

Session Chairman: Mr. Shillito

- The Honorable Richard D. DeLauer 133
Under Secretary of Defense for
Research and Engineering

List of Attendees

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OVERVIEW SESSION

General Henry A. Miley, Jr., USA (Ret.)

Good morning ladies and gentlemen.

This is the eighth seminar that ADPA has put together on the subject at hand and it occurred to me that that coincides with my tour as the President of the Association. Looking back over the eight years of these seminars, I could only conclude last night as I thought about it that the winds and tides have shifted in all directions around this subject and to reinforce that thought, the first two of these took place under the Ford Administration and the titles were simple and straightforward. We called it the Executive Seminar on Foreign Military Sales and International Logistics in December of 1975, Program, Policies, Procedures, and Issues. Nothing wrong with that. The next one, still under President Ford, Executive Seminar on Foreign Military Sales and Logistic Support. Then we shifted to the Carter regime and a new flavor crept in to even the title of our seminar. We called that one Programs, Policies, and Issues Related to the International Traffic in Arms. Next one was called Foreign Military Sales and Arms Control. Then we called the next Achieving RSI Goals -- how many of you still remember RSI? -- Through International Collaboration. The next one, the last under President Carter, was called the International Conference on Defense Cooperation. Last year we called it Cooperative Security and Defense Assistance, and this year we call it The Changing Scene -- Foreign Military Sales and Technology Transfer.

So the winds have shifted back and forth; the political climate and the philosophical climate have varied over the eight years. I suggest I stop talking and let's find out how strong the winds are blowing today and in what direction. Have a good seminar.

Mr. Barry Shillito

Thank you very much, General Miley. I'm Barry Shillito and I'm your Chairman for this seminar, this symposium. Interestingly, in line with General Miley's comments, I believe that this is the fifth of these seminars that I've had the privilege of chairing. I'm not sure the word is "privilege," but I have been your seminar chairman for the last five. So, like General Miley, I, too, have watched each of these changes and at the same time, in a number of ways, the continuation of the subject matter from one to the other. I was thinking about RSI, as General Miley mentioned RSI, and I think one of the things that shook me the most, thinking of that period, when talking to one of our very senior people

in the Department of Defense at that time and I was fascinated to find that as much as 40 to 50 percent of their total time was being spent on RSI.

As we embark on this seminar, I want to express the appreciation of all of us to General Miley, to Captain Jackson, to the superb ADPA staff for bringing us together. They've done an outstanding job under tough circumstances to again put this program on. I'm sure that we'll benefit. We've benefitted -- at least I know I have -- from the five past programs of this type that I've been involved in.

This continues the series, as Hank said, and we've dealt with the issues and problems that have involved FMS, the international logistics support, control of arms, defense cooperation, the whole subject of security. But in this meeting, we intend to review the changes, primarily the changes, that have occurred in the broad area of security assistance over the past two years. Changes have occurred under the Reagan Administration and we want to look at those programs, those policies, not only historically but also as to what can be expected as far as the future is concerned.

One of the consistencies in this particular arena has been its inconsistencies and so we're well advised to think in terms of looking, as best we can, into the future as we see it today.

In this world, this is not, as we all understand, a free trade environment. This is a world of politics, foreign policy, restrictions, negotiation, and often compromises. But as we focus on the specifics of the foreign military sales and technology transfer, we may note that while the trend under this administration is toward a more sympathetic view of arms transfers and sales, at the same time there has been increasing tension concerning the loss of technology to our potential adversaries. A report of the U.S. Senate Committee on Government Affairs, the permanent subcommittee on investigations, of November 15, 1982, titled The Transfer of United States' High Technology to the Soviet Union and Soviet Bloc Nations, highlights this concern quite vividly. I commend this report to your reading; I suggest that particular attention be given to it, particularly the examples of how the Soviets go about obtaining American technology. I recall about 1-1/2 years ago, after he had been in office, Cap Weinberger had an article in the Wall Street Journal that was also quite good as to how this came about.

We in the corporate world must be full members of the team in defending the technological advantage which has allowed us to maintain this edge over the Soviets, and some people are not too convinced that the edge is all that clear and distinct. We've all been aware of the open literature articles about the security

assistance. A sampling of news story headlines within the past few months, right up to the past week and in fact, this morning, reads about as follows. One from the Washington Post, August 1, 1982, "U. S. Policy in Weapons Sales in the Third World is Loosening." Wall Street Journal, August 10, 1982, "The U.S. to Push Less Capable FX Jet Fighters for Sale to Eleven Major Third World Allies." November 15, 1982, "Stolen U.S. Technology Boosts Soviet Strengths, Report Says." March 14, Business Week, "Japan Rearming," with the feelings and attitudes of the neighbors of Japan. March 14, 1983, "The Dangers of Sharing American Technology," Business Week.

Now, my purpose in mentioning these items is to point out that arms sales and technology transfers are subject in the forefront of the national interests and international security concerns. As we look ahead in this decade, we continue to confront a real and a serious international dilemma. Security requirements of our friends, of our allies, have been growing rapidly as they attempt to cope with diverse, internal, regional, and extra-regional instigated conflicts. It's no secret that much of this instability is fomented by the Soviet Union or its surrogates. In the face of these activities, which are inherent threats to the free world, our friends and our allies continue to look to the United States for help. That assistance is not always easy to offer or to bring about. There have been inhibitions to arms transfers as long as there have been weapons. Countries, as well as companies, have endured the arms merchant charge. There can be no doubt that dangers do exist in uncontrolled arms sales, but the popular image of indiscriminate arms acquisition by foreign countries is just simply not true. While we grapple with the facts of the sales transfers, we must be ever mindful of the truths in arms transfers as far as our own national security is concerned.

Neglect always leads to problems. At the other end of the spectrum we have to recognize the fact that right or wrong -- and we believe wrong -- many of the electorate are led to believe that international instabilities are caused by arms exports and that they contribute to raising levels of tension.

While weighing these extremes, there is a criticism of the U.S. relationships with what are known as the unsavory regimes. The security assistance programs that bolsters such governments are frequently said to really contribute to retarding economic and social development in the third world. Yet, there is the tendency in the third world to take sides, either with the U.S. or with the Soviets.

So what, then, is the proper trade-off? Isn't security of a nation the first priority of that nation's government? What if

that government is favorable to the United States? Then comes the sticky situations, the sticky questions, which I hope will be addressed, either in the comments or through your questions, during our discussions over the next two days.

I believe that our participants will have the ability to answer most of these questions. But the one or one of the many that always stands out is Taiwan and the PRC, as one of our sticky questions. Military aid, as far as the United States is concerned, is solicited by both in the interests of self-defense on the part of both. While there may be a moment of doubt, there is equanimity in aid to both. The PRC, of course, is concerned about their defense relative to the USSR, while the Republic of China is concerned about defense as regard the PRC. So as we attempt to aid both, it's for different reasons in each case. It comes down to authorizing some FMS to both, defensive in nature but overall, again, in the best interests of the United States.

In addition to the primary strategic objectives, we recognize that the Security Assistance Program also contributes to a host of secondary United States domestic goals. The foreign military sales part of the program accomplishes many things, not primary things but indeed, very, very important things such as: it reduces the unit cost, of course, of U.S. produced equipment for U.S. military service procurement; it generates foreign exchange and contributes to more favorable balance of payments; it improves our defense industrial mobilization base; and it provides employment in key sectors of our economy.

While these salutary conditions are realized, we must deal with the dangers in technology transfer. There is no guarantee of safeguard for U.S. technology. Potential enemies may ultimately benefit or be the benefactors of our security assistance programs.

What then is the nature of the arms transfer restraints? I would suggest that reason could minimize and generally eliminate many of the risks. The reasons encompass the areas of political as well as economic considerations. Also, considerations must be given to nuclear proliferation safeguards. But it's not our purpose to develop that issue at this time. I mention it as a pervading problem and it is, and it's not going to go away. The political considerations refer to regions, types of requirements, and national behavioral attitudes. The economic considerations are those relating to licensing and co-production, as well as the desire to market for the benefit of a U.S. industry.

The real lessons, however, of security assistance is its promotion of U.S. national interests -- underline, underline, underline. As a key element of our foreign policy, the U. S.

commitment to security assistance embraces military aid, economics, and technology. Military aid must not be considered simply a transfer of weapons for the waging of conflict. It can be and must be used as an instrument of containment in the interest of peace.

We do not seek increased military sales for purposes of conflict. Military aid is to help our friends, our allies, guarantee security in their region. In this, then, global national security is enhanced.

In this conference we expect to investigate the future trends and problems related to foreign military sales and technology transfer. We'll endeavor to dispel myths and misconceptions about the Security Assistance Program and leave you better informed about the direction of that effort.

Assembled for this program will be the experts who can address the issues and respond to your questions. Again, I welcome you to this seminar, this conference, and I know that we will have a most enjoyable, lively, rewarding two days of discussion.

We are indeed honored to have with us a gentleman who can be recognized as a soldier, a statesman, a legislator, the Honorable Edward Derwinski, Counselor of the Department of State. Mr. Derwinski is from Illinois, Chicago; he was educated in that part of the United States, Loyola; he has been in the military. As I say, he has, among other things, a wonderful background in that he, too, is an attorney. Mr. Derwinski served in the House of Representatives from January of 1959 to January of 1983. He was a member of the House Committee on Foreign Affairs, serving from 1963, and the Subcommittee on International Organizations and International Security and Scientific Affairs. He was the ranking minority member of the House Post Office and Civil Service Committee, on which he served from 1961, and was the senior Republican on the Special Subcommittee on Investigations. He served as a Delegate with the rank of Ambassador to the U.N. for the 1971 General Assembly Session. He was the U.S. Congressional Representative on the Council of the Interparliamentary Union, this international body that is comprised of legislators from over 100 countries which have parliaments or their equivalents. He has been a member of the U.S. Congressional Delegation to the IPU since 1959, and was the U.S. Chairman in 1971, 1972, 1979, 1980. He has been an active Congressional participant in meetings and communications, world-wide, in and regard everything dealing with national and international affairs. He is recognized as an authority in the international marketplace. For me to attempt to go through the recognitions, the awards, and so forth, of this outstanding American would be impossible in the limited time. We're truly honored to have as our keynoter today, the Honorable Edward J. Derwinski.

Honorable Edward J. Derwinski

Thank you. First, it's obvious, after that introduction, that you all should realize how lucky you are having someone of my caliber as your keynote speaker. Actually, that isn't really true. You should have had Bill Schneider, since he knows the subject much better, but I understand you've heard Bill before and therefore you need somebody new and that's why I wind up as the keynoter.

First, do you mind if I pick apart the introduction a bit? I'd like to clarify for the record a few things that came up in the introduction. I think there was a comment about having been in the military. I want you to understand that was our military and that was back in World War II, when men were men and the Army was the Army, and we didn't have an Air Force; we had an Army Air Corps -- much better run than they are today -- General, how are you? Also, my years in Congress have ill-equipped me to move over to the State Department, because in Congress you are allowed, subject to sometimes mistreatment in the media, you are allowed to pretty well sound off as you please and if you put your foot in your mouth, that's your business; if your constituents don't mind, it's fine. But I'm now at the State Department, where they presume that every statement you make, beyond "Good Morning," has to be cleared. So I have a speech here and it's not half bad -- it was written by every department in the building. That's another thing I'm unaccustomed to, that you get an idea and it's circulated and then everybody writes something into it. Then they all have pride of authorship and they insist that you keep their little paragraphs. Since my usual style, as I said, is to put my foot in my mouth, here I am with these wonderful words of wisdom prepared by our State Department personnel, some of whom aren't completely convinced that we ought to be too aggressive in the arms sales and promotion business. So I think there are a few problems. So what I'm going to do is just wander through this, and since I won't have all the time necessary, I will accidentally skip paragraphs that have been inserted.

Also, let me say that most of you ladies and gentlemen remind me of the kind of audience a preacher gets on Sunday when he delivers a standard sermon about the need to increase church attendance. I don't understand why you need a keynote address telling you the virtues of the U.S. defense policy and the need to increase our cooperation, monetarily and otherwise, with our allies around the world. You understand the subject; that's your business. But sometimes in this town that needs repeating, since the media doesn't necessarily treat it that way.

I think one of the greatest virtues of our country is our freedom of the press; I'd much rather be operating in our system

and cussing at the Washington Post every so often than be in Moscow, where you're spoon-fed a lot of nonsense day after day. So that isn't the question. The question is that sometimes the accuracy of the media leaves a little to be desired, and sometimes editorializing creeps into news stories. One of my great claims to fame was that I took a high school course in journalism. The teacher kept insisting that a news story was always written straight; you did not inject your personal views or you did not editorialize in news stories. I guess that's old fashioned journalism. That isn't the journalism that's practiced today. But our whole purpose in our security assistance program, which is in some trouble on the Hill, is to shore up our legitimate alliances and see to it that we meet our responsibilities as the one great power in the free world.

Now, the Administration is committed to this. The Administration, I think, has its act together. I've been quite impressed in the two months I've been in the State Department with the degree of cooperation between the Defense Department, the State Department, and the White House. There are always a few personalities and there are still a few people in the State Department who think that Cap Weinberger, for example, sounds off on too many foreign policy issues. But that's understandable. There are also people who wonder just who is in charge at the White House in the sense of calling the political kinds of shots that spill over into Defense and foreign affairs. But I would say, by and large, there is an excellent cooperation at the moment and understanding of our needs between the units of government that are most responsible.

Let's take, for example, the situation in the Middle East. The President's peace initiative is the only ball game in town. It has to succeed, if for no other reason than if it doesn't, we might wind up back at Geneva in some structure where the Soviets are involved. If the Soviets ever get involved officially in the Middle East negotiations, you may as well kiss the prospects of peace away. So we have a tough job getting our Israeli friends to eventually sit down, which they'll have to, and at least start to negotiate with King Hussein. We have a difficult problem getting King Hussein, also. But it's necessary that this be achieved.

At the moment, the focus, properly so, is on Lebanon. I'm personally rather optimistic at the conclusion of negotiations involving Lebanon. Just as an aside, though, I should add one interesting point. We're concentrating primarily -- and again, let me refer to the news media -- on the issue of Israeli, Syrian, and PLO withdrawal from Lebanon, and then, presumably, the internal security of Lebanon left to a reconstructed, reconstituted Lebanese Army. A substantial part of our request for funds in supplemental and fiscal '84 will involve the necessary support for the Lebanese Army. One thing we forget, though -- that it might not be possible

for us to totally produce what is, in our concept, the national unity in Lebanon. Some of those Druze and Christians and Muslims have been feuding for hundreds of years, thousands of years, almost. It's a semi-feudal society. And to think that we could come in overnight and suddenly impose a solution on, say, the Druze Maronite feud that has been going on since the Crusader days, denies the facts of history. What we want to do is minimize it. The Lebanese have an interesting way of solving their own problems. They are going to have problems; they've never had a truly strong central government. Their system hasn't allowed it, their factions do not allow it. But to the extent that we at least would like to work out the withdrawal of the Syrians, when the Syrians leave the remaining PLO forces have to go, and get the Israelis out. The Lebanese will muddle though. In the process, if we help with the reconstruction, if we provide, say, the necessary funds to help develop their military, that will be a positive step. And then the Lebanese will work out their own complications. At that point, it makes it quite logical to move to the next step, which is the negotiations, presumably between King Hussein and the authorities of Israel. If that formula isn't allowed to slowly but surely succeed, there's no hope for peace in the Middle East. There's no other initiative pending; there's no other practical, positive initiative on the horizon.

Now, our investment in security assistance, therefore, is greater in the Middle East than anywhere else. It's logical that will continue to be the case. In Europe, specifically then, NATO, we have, of necessity, to make substantial investments in support of the southern flank of NATO, Portugal, Spain, Greece, and Turkey. And I don't think I'm saying something undiplomatic if I point out that in each of those four countries there have been or will be base negotiations. Base negotiations have the practical effect of sometimes increasing the budget impact and anyone who thinks otherwise obviously isn't being realistic.

So there are extra costs that come with the successful conclusion of base negotiations. That's logical and it's in our interest, it's in the interest of each of those allies, and it's in the collective interest of NATO.

Then, of course, a special hot spot these days is Central America. Here again, we can't do the job that we've set out to do in Central America, which is to isolate Nicaragua and see that the rest of the countries retain their independence and their security. To do that again requires an investment in the defense of those countries. Our relations at the moment with Panama, Costa Rica, Honduras, naturally El Salvador, are excellent. If you stop to think of where our relations with Guatemala were two or three years ago and how they've progressed, that isn't at all a problem for us. The Guatemalan Government has been somewhat

moderate in its attitude towards Belize, which used to be a hot spot and is now falling into place in terms of the regional tolerance.

So, again, if we could do the proper job in El Salvador in supporting the Government and giving them the wherewithal to put down the guerilla war, then we could bring some semblance of stability to Central America. Our problem here will be the Congress. The Congress has shown itself most difficult to convince that we're not plunging into a new Viet Nam. Again, let me refer to my friends in the media -- the temptation is to say, "Here comes Viet Nam again." There's no basis for that. I don't personally think there's any possibility that El Salvador could lead us to a new Viet Nam. The geography is different; our control of the area is different; the ability of the Soviets using the Cubans and Nicaraguans to complicate matters is much more limited than it was in Southeast Asia; and there just isn't any logical comparison to the complications we were involved with in Viet Nam and what we can and should do in Central America.

Specifically, the request before Congress is to reprogram \$60 million in foreign military sales credit for El Salvador. This isn't going to be settled in one year. It's going to go on for a few more years, which means an additional investment in security assistance and economic assistance. It's necessary, practical utilization of the U.S. role of leadership in that area.

Let me digress for a moment and go back to the Middle East and more specifically, Lebanon. One of the stories this morning was the grenade attack on the U.S. Marine patrol. This will predictably produce all sorts of outcries from critics of foreign policy saying, "Get the Marines out of Lebanon." I was there twice since the Marines have taken over their assignment. I think the U.S. Marines in Lebanon have functioned in a manner in which we've had nothing but a positive result from the role they've played. First of all, they are the most respected and admired contingent in Lebanon. The Lebanese people have almost a child-like faith in the United States and the presence of U.S. military. In fact, in the history of Lebanon, 1958, when Ike sent the Marines ashore, is regarded as the greatest event in their modern history in terms of maintaining their security and independence. The physical presence of U.S. Marines, as far as the normal Lebanese are concerned, is a sign of the U.S. interest in their future. As long as the U.S. is interested in their future, they think they have a future. And to suddenly have one episode, such as the one that just occurred, trigger a demand that we withdraw our troops would actually be a disaster for everything we've tried to do in the Middle East. Incidentally, for those of you who have a military background, you'd have been proud of the troops. Way back in World War II, I was just a poor little foot soldier and so I

don't claim to be a military expert, but the Marines there were a most impressive group, most impressive. They were effective, well-trained, total command of their assignment, and as far as I'm concerned, from the reports I've seen and the information that has come to me, they get nothing but high grades for their performance. It's the U.S. Marine Corps contingent that's really holding that whole operation together. Our French and Italian friends are great, but without the U.S. Marines, that whole system wouldn't be working.

The next point I'd like to touch on very, very briefly just to sort of skim the whole world issue again, I mentioned bases in Portugal, Greece, and so on. Remember, we also have some negotiations coming up soon in the Philippines. The Philippines are an old historic ally, yet the political situation, again, will require some increased funding for the Philippines. In the fiscal '84 budget, we have funds for the last of the commitment that we made in '79 at the time of the base negotiations. So there again, there's just a logical relationship between the ability to utilize the Clark and Subic Bay facility and the budgetary impact in security assistance.

Let me get to another touchy issue for you, which is Turkey and Greece. When I say touchy, maybe those of you who have never been in politics won't find it too touchy, but to a Congressman, there's nothing as interesting as the annual debate over how much money should be allocated to Greece and Turkey. Then, of course, it's been complicated by the problems on Cypress since 1974. But both Greece and Turkey are valuable, obviously key allies. The very fact that given their historic animosity, they have both been effective participants in NATO the last 30-some years is a testimonial to leadership that exists there. When you stop to think of the historic complications between the Greeks and the Turks, if you'd have asked any eminent historian in the mid-30's, "Do you ever think you will see an European alliance in which Greece and Turkey will be closely allied and cooperating with each other," they'd have laughed at you. Nothing in Greek-Turkey history would indicate that. Despite the ongoing political debate that sometimes develops between them, they have been, each in their own way, very, very valuable and consistent supporters of the NATO Alliance.

At the present time we have an interesting situation with their two governments. The military government in Turkey has brought necessary stability to the country that had eluded the previous, somewhat chaotic, weak parliamentary system. On the other hand, in Greece, we're faced with a situation where the Prime Minister, as a candidate, made some public statements which were quite worrisome. However, as the Prime Minister, he has been much more pragmatic, which is one of the oldest lessons in

politics -- that when you're out on the speaking circuit, you sound a bit more dynamic than you are when you have the responsibilities of office. So Mr. Papandreou has been much more practical to work with than one might have guessed just reading his campaign rhetoric. I might make the same observation about Mr. Mitterrand. In fact, I suppose my poor friends from the State Department will cringe when I start on this subject, but let me discuss President Reagan.

You recall back in 1976, he almost took the Republican nomination away from Jerry Ford on the issue of the Panama Canal Treaty, and then, during Mr. Carter's years, the treaty was ratified, the House went ahead and provided the funds needed to implement the treaty, Mr. Reagan was elected President. He hasn't had a word to say about the Panama Canal. That's political realism. You inherit a certain situation and you work with it, and this, in fact -- in debates with my friends in Greece and France, I point out to them that when we look at Mr. Papandreou and Mr. Mitterrand, I, at least, look at President Reagan and his logical adjustment to the realities of the Panama Canal as an example of how people in public office do the right thing when they have the awesome responsibilities of office.

Now, a number of other points I could make, but let me wind up by giving you a little lecture. As I understand your group, you all have a slightly vested interest in the ongoing effectiveness of our Security Assistance Program and the proper allocation of the budget in the broad military arena. You should keep in mind that we're in some trouble on the Hill, and it would be most helpful if you could support the Administration's goals, the basic policy goals. I don't want to turn you into partisans, of course, but at least in the area of foreign policy and defense policy, we're going to need all the help we can get. The problem is a practical one. We've gone through a series of budget deficits and a number of members of Congress have themselves out on a limb, saying, "I'm for social programs; I'm going to vote to cut Defense; I'm going to vote to cut foreign aid until we balance the budget." Then there are those who have never voted for foreign aid, and if you were coming from a district in maybe central Mississippi or the great plains of Nebraska or somewhere, voting for foreign aid is hardly something that endears you to your constituents. So given those natural problems of the Congress, the status of the economy, the budget brawls of recent years, you have a lot of prepositioning. And then you come along, as we have, with a supplemental request in which we absolutely do need additional funds and additional flexibility to meet the increased financial commitment that will be required in our relations with Greece, Turkey, Spain, Portugal, Philippines, Sudan (if Colonel Khadafi continues his performance in that area). I could go on and name a number of other countries. You could see where some

practical help from an enlightened group such as this would be most beneficial to the Administration, and if you keep in mind also that most of you will, in your Washington careers, outlive this Administration and a number of others, you could see where perhaps it's most practical that you do join us in this moment of need that we have in seeing that the Congress reaches new heights of statesmanship.

Now, after 24 years in Congress, I'm convinced that the Congress can reach heights of statesmanship. It takes a little effort and it takes a little maneuvering and it takes a little negotiating, and sometimes you do have to promise some House or Senate member a subsidy for some local interest in return for a vote for security assistance -- that's as American as apple pie. But along with it, we need the support of people with influence, leverage, responsibility, and enlightened people like yourselves who understand the absolute need to maintain our worldwide security and defense structure.

Again, I'm back to where I started. I was really preaching to the converted. But I also want you to know that by nature, I'm an optimist. I think we're on the verge of a truly successful application of foreign policy. We have this tendency, as Americans, to be somewhat self-critical and again, our friends in the media add to it. We sometimes think that somehow in comparison, the Soviets are perfect, never make mistakes, never bungle. Perhaps sometimes it's good to just focus on what they have, what they don't have. You look at the economy of Poland, Romania, East Germany -- total shambles. A classic case of mismanagement. They can't do better under their system. If you were the commander of the Warsaw Pact and you were looking ahead to theoretical confrontations with NATO, how reliable would the Polish Army be today, if you were making any contingency plans? These are factors that we don't have to worry about. There isn't a single ally of the United States that's an involuntary ally. Every ally that the Soviet Union is, in effect, involuntary. If you had democracy in any of those countries, there isn't a single government that would remain in power. Yet, we sometimes forget that. We forget the fact that we're dealing with basically weak adversaries, weak in the sense of real public support, weak in the sense of economic vitality, weak in the sense of any input of public opinion, and things which we take for granted and things which sometimes cause problems but still are the basis of our system.

When I look at the situation that we face, given the new team in the State Department -- Mr. Schultz, Dam, Wallace, all economists -- we're able now to help coordinate the strength of our economy, the strength of our worldwide leverage, trade and otherwise, with the effectiveness of our Defense establishment. We're putting together a very, very effective program. The elections in

West Germany were a positive note; new-found stability in the Italian Government. All these things are working in our favor. We have the momentum. If we get a breakthrough in the Middle East, if we could get Congress to remember the old admonition of Senator Vandenberg that politics stop at the waters edge, we could have a very, very effective application of defense in foreign policy. In the meantime, the motivation for the existence of this group could continue in fine fashion.

Thank you.

Captain Nelson Jackson

Thank you very much, Mr. Derwinski, for those words of optimistic realism or realistic optimism, both. We appreciate your setting the tone for us and we'll look forward to further great things from the State Department and from you, sir.

SESSION I

FOREIGN MILITARY SALES POLICY

Mr. Shillito

We will get started with Session I, Foreign Military Sales Policy. The single change that we have in the entire agenda, by the way, is as regard Dick Perle, who was to be a part of this particular session. Dick has been called to the Hill and Mr. James Morrison will be standing in for Mr. Perle -- not standing in, but Mr. Morrison will be our speaker and panelist for this session. I'm going to reverse the order as regard the introductions and we'll have Mr. Sienkiewicz as our first speaker and then Mr. Morrison.

This particular session deals with government foreign policies, as related to the foreign military sales, with discussions concerning the application of MOUs, the role of the embassies, diplomatic missions, etc. Funding limitations, etc., will also be included in this particular session. Attache support, where applicable, development of weapons, etc. And anything and everything that you all feel inclined to want to raise, discuss with our panelists.

Our first speaker and panelist is Mr. Stanley Sienkiewicz, who is the Special Assistant to the Under Secretary of State for Security Assistance, Science and Technology. He's an author, an educator, a government official, an internationalist. He's had a spectrum of responsibilities in a most outstanding career.

Before joining the Administration, he was a professional staff member responsible for security and arms control issues for the Senate Foreign Relations Committee. His responsibilities there were for the entire NATO Assistance Program, arms sales, all of NATO, Western Europe, etc. He's been in operations research analysis, he's been involved in strategic and theater nuclear force planning, arms control issues, SALT, MBFR, and a wide range of nuclear policy matters including targeting doctrine, non-proliferation, etc. As I say, he's been an educator at Johns Hopkins, and has been recognized as an individual outstanding in the international arena of foreign relations in the broad sense. He has many degrees from many universities, including a Ph.D. from MIT. We're honored to have as our first speaker Mr. Stan Sienkiewicz.

Mr. Stanley Sienkiewicz

Thank you. I'm not sure who that was being described, but I guess I ought to leave that for another forum.

I bring you greetings from Bill Schneider, who originally could not accept your kind invitation because he was going to be in Europe on technology transfer COCOM-related -- is now not in Europe, but still can't accept your kind invitation because he's not too far away being grilled on El Salvador.

I find this an appealing audience, because most of my recent public speaking has been on the nuclear freeze issue for the Administration, and it is exceedingly rare that on that subject I ever have a sympathetic audience. In fact, not long ago I found myself in a very large gathering, perhaps almost this many people, on a university campus being accused of being a war criminal. So I'm pleased to be here.

Much of what I say, you will have heard in various other fora and from various other speakers for the past couple of years at least, because what I propose to do is at least outline again -- I think it's useful -- the basic premises and basic perceptions on the questions which interest you of this Administration.

Two years ago, upon taking office, the Reagan Administration found in the general area of foreign policy two large problems. One, inadequate resources; the second, an accumulation of legislative restrictions that had grown to the point where the President's (any president's) capacity to conduct foreign policy efficiently and effectively was in some question at a minimum.

On the resource question, just a few observations and then I'll try to couple it to the arms transfer issue. Less than \$20 billion in the proposed FY 84 year, but in recent years, of

a total of about \$850 billion in the total Federal budget is in what is known as the 150 account, the conduct of international relations. This includes not only what is generally called foreign aid, but the State Department budget a couple of billion dollars, the USIA, and a variety of other activities, all of which can be viewed, it seems to me, quite reasonably as the President's foreign policy budget. It's a very small fraction of the total and yet, if you look at it in terms of the foreign policy budget, it's very hard to argue that it's unimportant. It seems to me it's at least as important as most other federal activities which we fund.

About \$14 billion this year of this total could loosely be characterized as foreign aid, economic and security assistance. About \$9 billion or a bit over is security assistance by formal title, \$4.5 of which, roughly, is off budget loan guarantees at cost of money to the Treasury. Almost another \$3 billion is called the Economic Support Fund, and that, in fact, turns out to be in programmatic terms, economic money but the reason it's in the Security Assistance account is that its purposes, its allocations are explicitly to be responsive to American political and security concerns.

There's another \$100 odd million of international military education and training, peace-keeping operations, and that sort of thing. Basically, the Security Assistance Program is less than \$10 billion, on and off budget.

The economic side approaches \$5 billion, about \$3.5 in various bilateral programs, the remainder in various multilateral programs. I think I won't say any more on that subject today, unless people have questions.

The \$4.5 billion in off budget financing, plus about \$1.5 to \$2 billion -- we've asked for \$1.7 billion plus, but what we've really gotten is typically a good deal less from Congress in recent years -- amounts to the military financing. This is less than \$6 billion, and this is what the U.S. Government allocates to finance military sales. Roughly 3/4s of that is at the cost of money to the Treasury, not long ago 14 or 15 odd percent. The billion to two billion -- \$1.7 billion, as I say, in this year's budget request -- is grant.

Now, I think most of you will recall from things you've heard or read that U.S. arms sales -- FMS arms sales -- government to government for '82 totalled about \$21 + billion. The remainder, beyond the \$5 odd billion that we finance one way or another, is cash. This is an instrument of policy. It's an instrument of policy. Other countries pay retail, I suppose, for American military equipment -- cash or they borrow money

from the U.S. for the most part at the cost of that money to the U.S. Government. Yet it is a policy instrument and it's an important policy instrument and I think there is zero chance that any administration that I can imagine would try to change that in some fundamental way.

Resources -- I've gotten off those a bit prematurely. The total \$20 billion I referred to at the outset, less than \$20 billion, is less than 2 percent of the total Federal budget. That's what it costs to run American foreign policy. Yet the Congress, year in and year out, reduces that total significantly. In the past five years, the Congress has managed to get an appropriations bill for foreign policy funding once -- once. We labor, as a consequence, under things called continuing resolutions, the effect of which is an annual cut between \$1 billion and \$2 billion in presidential requests. That's a very small sum in the total picture. It's not going to do much to change the size of a deficit between 100 and 200 times that cut. It's critical. It's the difference between a president essentially being able to operate his foreign policy in the way he has constructed it and at this point, I think, perhaps being virtually crippled in some important areas.

What's all this resource pitch got to do with arms transfers beyond the obvious that we provide financing for 20 or 25 percent of them, which in and of itself ought to make clear that at least that proportion will be always managed to a degree or another by the U.S. Government. That is, that proportion that we finance at minimum is clearly going to be an instrument of policy.

Well, arms sales, on any significant scale, are a pretty recent phenomenon. They breached a billion dollars only in 1964, three billion only in 1973, ten billion in 1975, and twenty billion only in 1982. Why is that? Well, I think it's not unrelated to the fact that that same period has seen us essentially get out of the grant assistance business. Grant assistance declined. It fell below \$2 billion in the early 1960s, below a billion only in 1970, but of course, we've called it something else and as of about 1974, we started something called forgiven credits. Well, it's grant assistance. Between \$1 billion and \$1.5 billion seems to be the rock bottom and you know, essentially, the programs for which the Congress directs that grant assistance.

There have been lots of reasons, I suppose, to explain how it is and why it is that we've gotten out of the grant military assistance business. Among them would be the declines in post-World War II, post-Korea, post-Viet Nam stockpiles of equipment excess to the force structure to which we shrank after those conflicts -- budget pressures obviously. Policy reasons -- there

has been a thrust in the Congress in the past half decade, at least in the direction of getting out of grant assistance.

That's for a scholar to understand, but it seems to me the consequences are things we ought to deal with, we ought to recognize. The result is to reduce real resources applied to a public policy problem. It seems to me it goes without saying that it reduces your capacity to manage that public policy problem.

More to the point, the direction of our security assistance and in general our assistance programs has, of course, changed over time. In the post-World War II decade or 15 years, it was aimed largely at Europe, several countries of the Far East. That is, we were rebuilding economies that had the potential to do very, very well themselves. And of course, we've seen that happen. In the decade of the 60s, the direction shifted. Toward the end of that decade, very substantially into Southeast Asia; later, after we got out of Viet Nam, the direction shifted again very heavily into the Middle East. But those two shifts have something in common. That is, it was a shift from economies that were going to get up on their feet and be very, very competent to economies that were likely to remain basket cases for a fairly long period of time.

If we have important interests in an Egypt, for example, it is at least an arguable proposition that the threat Egypt faces today or the higher priority threat is not one of a large attack from an outside military force, but of economic collapse. We have large economic problems on our hands, while the real resources allocated to this whole area have declined. That means, in sort of immediate policy terms, two things. It means we really do need to have some kind of an adequate level of concessional security assistance so we don't end up collapsing economies as we try to arm our friends. It does us very little good to modernize an Army at the cost of a regime that falls, a friendly regime that falls because its economy has gone to hell. There are a number of countries I think many of you are familiar with who are essentially on that fine line right now.

So we need a reasonable level -- I would say not gross increases over the President's request, but something like the President's request. These are fairly carefully thought through programs. The other is we needed a reasonable level of economic programs, economic assistance to keep governments that have economic problems that are not helped by our efforts to improve their military capability and stay afloat -- primarily ESF, but also it means the coordination of all of our economic programs into a more coherent package aimed at our major foreign policy priorities.

In broad strokes, by any constant dollar measure, the real resources we allocate to this important set of foreign policy instruments are about half the peak levels of roughly 30 years ago. So, arms sales have to a very substantial degree replaced arms grants as a principal instrument of U.S. foreign policy. That should make it clear why it will always be seen by the U.S. Government of whatever administration or whatever stripe as an instrument of policy, and that means it will be regulated. It will be regulated.

Now, that regulation can take a wide variety of forms and this administration, I think, started out and continues to hold a rather startling assumption. Arms producers are not, in our view, engaged in something despicable. They're citizens like all other U.S. citizens, corporate or private, and are not to be treated any differently by the bureaucracy which is, in fact, their government. A dramatic change, I think. And that as a practical matter means that at least some of us are quite prepared to try to prod the bureaucracy on questions of procedure. On questions of process. I think this administration, philosophically, has clearly been receptive. I know Bill Schneider, Jim Buckley, his predecessor, are interested in the problem and so we will do what we can to fix things procedural. That does not mean that we will necessarily see any specific transfer in the same way the proposed transferor sees it. You will understand, I think, that while from your perspective a particular transfer is properly viewed as commercial, from the Government's perspective it cannot be viewed exclusively as commercial. I tell a fair number of people -- I and my associates in both departments -- tell a fair number of people, "no" who are interested in selling this or that item to a few countries, certainly, that you're familiar with; Iraq, Iran, Libya. My associates commonly tell people no on far grayer situations -- those are black and white. In fact, let me submit to you a heretical proposition. Well, to this audience maybe it's not heretical. It's heretical to public audiences because they see the rhetoric; you, I think, see the reality. And that is that the story of arms transfers as between our predecessors and this administration is fundamentally, on the ground, one of continuity. One quite by contrast to the proposition that the very recently released Congressional study -- I think you may have noted it in the press of the past week -- tries to argue. How would you test such a proposition? I think you all see it tested on a virtually daily basis, but if I were describing a research project to a student I would say first you go and look at all of the approvals the Reagan Administration has made since taking office and identify what fraction were originated, that is, negotiations begun in the Carter Administration. I submit to you that's not a trivial fraction. These things, as you well know from your own experience, often take very long periods to come to fruition. Then I would say take another subset of the total of decisions made by

the Reagan Administration and that would be the subset clearly consistent with PD 13, the Carter policy, about which there would really be no controversy and there I also submit that subset is not a trivial one. It's very large. In fact, I'd venture a guess that those two categories together probably approach 80 or 90 percent of the total of Reagan Administration approvals. General Gast, if your analysts can do a little arithmetic, I hope they don't prove me wrong, but I submit to you that in the large, that proposition is probably accurate.

Why is that? Let me give you a political answer and that is that our predecessors saw the world in somewhat idealistic terms and in fact, the reality of their policy, the reality of U.S. interests -- large sales go to NATO allies, important countries like Saudi Arabia, of course, who is our biggest all-time purchaser, although intriguingly enough, probably close to half of all the Saudi contracts have been construction contracts. In any case, I, upon reflection, think that my heretical proposition is not so heretical to this audience. I think you know it to be reasonably on the mark from your own daily experience.

There are policy implications and I think there are implications for you from the sort of mythology that is represented in the recent Congressional paper on this subject. The mythology somehow that we are really doing something dramatically different rather than discussing it more accurately, candidly, and honestly. One consequence is the proposition recommended in this report, I am told, that legislative change be pursued that would make any military sale over \$200 million subject to positive Congressional action -- positive. It means the President would have to go up and get a bill passed approving -- approving -- any sale over \$200 million. Well, you know what it's like getting any mildly controversial piece of legislation passed these days. The Congressional agenda is verging on the impossible. I would hope that this proposal doesn't get a lot of serious attention. It could be crippling.

This raises the general thought I would leave you with, getting all the way back to the beginning when I mentioned that the two problems we faced were resources and Congressional restriction. We've cleared away some underbrush in terms of Congressional restrictions. We're now down to much more fundamental transformations in the Legislative-Executive relationship. Much harder to deal with because in some cases, they're not even really explicitly stated in law. I think you all know that no administration has ever formally acceded to the Congressional veto manifested in 36B or in a variety of other areas, including nuclear commerce and other regulatory laws that cover certain regulatory activities. Yet we've all lived with it as a practical matter and the consequences, among other things, are that at minimum, any significant sale is delayed roughly two months while we go

through a notification process and if we mishandle the Congressional calendar a bit or the luck of the draw leaves us with resources, we may have even larger delays. You're all aware of that and we talk to people about it, but I suspect the ultimate resolution of the constitutional validity of the Congressional veto is going to have to be left to the courts.

There are other things like the Congressional veto that are less formal and that I'll give you a good example of in closing. We have a situation now where a president, as a matter of high policy on one of his major agenda items, has asked to reprogram, has proposed to reprogram a small sum of money -- small in terms of this budget even, \$60 million -- for El Salvador. And while the law doesn't explicitly say so, that decision is in the hands of no more than a couple of dozen members of Congress sitting on several key committees. That's essentially a procedure that is evolved on the question of reprogramming. And that, it seems to me, is a clear manifestation of the broader Legislative-Executive evolution I've alluded to, and that is the accretion of procedures, laws, and practices that permit very small groups within the Congress, sometimes -- for example, a couple of dozen or less on this matter -- to essentially block major presidential initiatives. I think on the Congressional veto, it's less dramatic simply because, in my view, the Constitution establishes a procedure for blocking a presidential action but it requires two-thirds vote; that is, you've got to pass a law saying the President shouldn't do it and then you've got to override a veto. A legislative veto typically requires less -- 50 percent plus 1. That's why you get dramatic fights over the last few votes, as we had on AWACS.

It's this much deeper set of inhibitions in the area of Executive-Legislative relations that are, I think, the more fundamental problem and the one that we really don't know how to grapple with very effectively, but we're willing to take any advice we can get from all corners.

Thank you very much.

Mr. Shillito

I forgot to mention that in addition to Stan's other attributes, he smokes a pipe, but we appreciate very much your comments, Stan.

Our next speaker is Mr. James Morrison, the Director for European Policy, Office of the Assistant Secretary of Defense for International Security Policy. Jim is a former Army officer. He's been 18 years with the Department of Defense. He's been deeply involved in European and NATO affairs. He has been the

Deputy Director for the Department of Defense for the MBFR Program. He, too, has had extensive experience as related to that which we're discussing this morning, the foreign military sales policy. Jim, we're delighted to have you as our next speaker.

Mr. James W. Morrison

On behalf of Assistant Secretary Richard Perle, I want to express appreciation for the opportunity to address the Association this morning, and also to convey Mr. Perle's regrets that he's not able to be here himself this morning. Right now as we speak he's about a few blocks away on the Hill testifying before the House Foreign Affairs Subcommittee on security assistance to our allies in NATO's southern flank.

Mr. Sienkiewicz has addressed some of the major issues involved in security assistance, and this afternoon, General Gast, the Director of the Defense Security Assistance Agency, will speak in some detail on FMS programs. I believe later in your program tomorrow, Dr. Stephen Bryen, one of Mr. Perle's deputies, will address you on the issue of technology transfer policy.

As the Director for European Policy I would like to restrict my remarks this morning to some general perspectives on security assistance Under Secretary of Defense for Policy, and one is for international security policy and that is Mr. Perle. Mr. Perle is responsible for all European and NATO matters and also nuclear matters and some economic and technology transfer matters. The other Assistant Secretary for International Security Affairs deals with the rest of the world, apart from Europe and NATO. That's why, from Mr. Perle's perspective, I'll be limiting my remarks generally to Europe and NATO.

But first, a few general remarks on security assistance. The Security Assistance Program has two primary objectives. The first is to support countries that must directly confront the Soviet Union and the Warsaw Pact, and the second major objective of security assistance is directed at those countries that require our help to maintain internal security and stability to preserve their independence and to contribute to regional stability. As you may be aware, the Secretary of Defense recently issued an updated booklet on Soviet military power in 1983. This is an updated version of a document that was first put out a little over a year ago and I would call your attention to that. It has a chapter in it on Soviet power projection and it does display, in a map form, many of the Soviet assistance in providing technicians and arms sales and other assistance throughout the world and it also, on one of the pages, gives a good display of some of the major Soviet equipment that is provided throughout the world, including some by country.

The Soviet Union has become the world's leading weapons exporter and is now the main supplier of weapons to more than 30 countries, compared to about 15 a decade ago. The point here is not that we should match the Soviet assistance effort dollar for ruble, or weapon system for weapon system, but that we need to provide reasonable and prudent assistance to help deter aggression and bring confidence to those countries threatened by the Soviet Union or Soviet armed states.

Security assistance provides a cost efficient, cost effective program which complements our own force structure and furthers our defense objectives. Three vital policies that support our defensive and deterrent strategies are: (1) maintaining a collective defense posture that incorporates the strength of our allies; (2) maintaining forward deployments that, combined with the forces of our allies, provide the first line of conventional defense in Western Europe, Japan, and Korea; and (3) building a flexible force structure that supports our alliance commitments and forward deployments and provides a variety of options with which to respond to unforeseen contingencies in any region in which we have vital interests to defend.

When we improve the national security capabilities of allies and friendly states, we enhance our own security interests. Our assistance programs help us to maintain foreign bases, gain access to overseas military facilities, improve our ability to operate with other armed forces, and, in general, improve the forward defense of the United States. Countries that have accepted U.S. bases or access arrangements have done so at some risk and cost to themselves. Without these forward defense assets, it would be far more difficult and far more expensive to carry out our foreign policy and defense strategy abroad.

Turning now to NATO's southern region, our allies -- Spain, NATO's newest member, Portugal, Greece, and Turkey -- have important strategic missions to perform. They cannot, by themselves, finance the fulfillment of these roles. These allies need assistance to supplement their own contributions to Western security. This assistance is among the most prudent and the most efficient forms of national defense expenditures. As such, it contributes substantially to our own national security interests and to world peace.

Perhaps because this assistance is sometimes loosely labeled foreign aid, implying a give-away, security assistance is seldom recognized for the invaluable strategic investment that it is. Most of the security assistance we provide is in the form of guaranteed loans at market rates of interest, as Mr. Sienkiewicz has mentioned. These loans finance the purchase of U.S. goods and services. The United States benefits greatly from our

Security Assistance Program. First of all, security assistance decreases the costs of certain programs and missions vital to our national defense. Our allies are, in many cases, capable of performing specific missions and implementing certain programs less expensively than we can.

Secondly, we increase our defense flexibility. Helping our allies acquire the means to defend themselves makes possible the performance of certain important regional tasks that would otherwise remain undone altogether.

Third, there is a crucial strategic cooperation regarding, for example, base or facility rights for which security assistance lays the groundwork.

Few other programs provide us with as much return on our investment. Cutting needed security assistance programs would be false economy. The punitive savings are more than offset by the increased amount which would be needed for our own defense budget.

Turning now to some specific countries, the Administration's program calls for significant foreign military sales credits for Spain. These credits will help our Spanish allies modernize their armed forces and are an important element in the overall U.S.-Spanish security relationship.

Another element in that relationship is the recently concluded U.S.-Spanish base rights agreement. This agreement is awaiting ratification by Spain's Parliament. It was signed in July, 1982; Spain became a NATO member in May of 1982.

When we negotiated for U.S. use of several Spanish bases, our government pledged its best efforts to help Spain obtain the credits it needed to purchase U.S. military goods and services.

Portugal has stood by the U.S. in times of crisis with singular steadfastness. Portugal is an important ally in NATO which shares our commitment to the defense of the West. It has made available its strategically located air field at Lajes in the Azores. Lajes is an especially valuable facility for a number of contingencies.

The much needed security assistance we provide Portugal demonstrates that the United States recognizes the value of U.S.-Portuguese relationship. With the aid of other NATO allies -- and I might mention that we do encourage our NATO allies to assist those allies needing assistance, generally in the southern region -- with the aid of other allies, U.S. security assistance will help Portugal acquire A-7 aircraft, construct modern anti-submarine warfare frigates, and upgrade tanks to a new

configuration. This assistance will smooth the way for the new U.S.-Portuguese base rights accord. It will significantly enhance the ability of U.S. and NATO forces to conduct many essential missions, including rapid long-range airlift to Europe and beyond.

The Administration's security assistance proposals also affect the delicate base negotiations between the United States and the Government of Greece. The future of the U.S.-Greek security relationship hinges, to a large extent, on the successful completion of these negotiations. The Administration enormously prizes our country's deeply-rooted amity and long history of cooperation with Greece, and will continue to work constructively to make these negotiations a success. The U.S., Greece, and other NATO allies all benefit from U.S.-Greek security cooperation.

Though the Greek economy is strong, compared to other nations in the area, Greece lacks the resources to maintain its aging equipment in a reasonable state of readiness while simultaneously modernizing its forces.

Lastly, of the four countries that I wanted to mention, I would like to discuss Turkey, which is clearly in great need of our help and which has unique strategic importance. Turkey anchors the critical southeastern flank of NATO and is charged with the critical mission of bottling up the Soviet Black Sea Fleet, which otherwise could tip the military balance in the Mediterranean. Turkey also abuts potential lines of Soviet advance through Northwestern Iran towards the Persian Gulf. The Soviets have massive forces deployed in the Transcaucases, posing a threat of intimidation or potential aggression in the area, which Turkish forces are ill-equipped to defer or thwart.

It should be noted that the Warsaw Pact forces facing Turkey have been steadily modernized despite a deterioration in Turkish capability. This dangerous situation can be corrected with our help and that of other allies, such as the Federal Republic of Germany which is doing a great deal and which we hope will do more in the future. Turkey has the largest standing military force of any NATO ally. It needs to modernize its forces to capitalize on the human resources that Turkey is dedicating to the Alliance. Turkey desperately needs our help. I say help, because some forget Turkey's outstanding record in bearing the burden of defense. Turkey has the highest real increase in defense spending over the last 10 years of any NATO nation.

Turkey is maintaining a valiant effort to keep equipment operational. However, almost all major items are obsolete. This includes not only weapons systems, such as tanks, ships, and aircraft, but communications and support equipment, as well. In the Army, almost all tanks have 90 mm guns with limited effectiveness, and are gas powered with short range. Only 1 percent of

critical anti-tank weapons are modern. Some 89 percent of short-range air defense weapons are of 1940-vintage or earlier, and about 93 percent of FM radios are unsupportable. In the Navy, all the destroyers are ex-U.S. World War II ships, and 75 of the submarines are over 35 years old and at the end of their operational usefulness. In the Air Force, some 70 percent of the fighter aircraft are pre-1970 vintage. There is no modern ground-air defense for bases. This obsolete equipment not only reduces combat effectiveness, but also increases operations and maintenance costs.

Our proposed program was devised with many considerations in mind, including the importance of stability in the Aegean. It will accomplish several things which are of direct benefit to the United States. We will assist Turkey in implementing agreed NATO goals and thus enhance its ability to perform its NATO missions. A strength in Turkey would be an increased deterrent to possible Soviet expansion in the Middle East and Southwest Asia. Improvements in Turkey's air defense capability will help protect the U.S. Sixth Fleet in the Eastern Mediterranean. Lastly, the program will result in the purchase of new fighter aircraft and other equipment from the U.S.

I would like to be able to conclude by stating that if Congress approves our whole security assistance proposal, all of the recipient countries will be able to fulfill their NATO tasks. Unfortunately, I cannot conclude that way because it is not so. Even if all of these proposals are approved, critical force deficiencies will still exist in NATO's southern region. We must be sensitive to the financial limitations of our friends and allies. We do not want a solution to one set of problems to be the cause of another. This is why our request for 1984 includes more grants and why we are pleased that the Congress has acted to revive the Grant Military Assistance Program, or MAP, in the past two years.

Security assistance is an extremely cost effective investment in U.S. security. The program is not intended to perform miracles and it is certainly no panacea for solving the world's security problems. It cannot be a substitute for strong U.S. armed forces. But without doubt, these international assistance programs complement and strengthen our global defense posture. Without security assistance, we would be deprived of many forward defense assets and therefore, have to make up for them in ways that would be more costly, less versatile, and less reliable. For most countries involved, a balanced U.S. approach to economic and security assistance makes good sense. For those facing direct and immediate threats, more security assistance should take higher priority. In any event, security assistance programs are developed to assist other countries sharing our values to defend

themselves. In so doing, we make a positive contribution, not only to freedom around the world, but to our own defense and security. Thank you.

Mr. Shillito

If any of you have the urge to raise a question from the floor as we're embarking on these discussions with our panelists, please don't hesitate to so indicate. Any questions immediately from the floor? If not, we're loaded with written ones at this point, so we'll take off.

Mr. Morrison, what is the amount of security assistance involved in the Spanish Base Rights Treaty? When do you anticipate it may be concluded?

Mr. Morrison

The proposal in 1984 for security assistance to Spain is entirely, in terms of the military sense, in the foreign military sales program. There is no grant assistance, or MAP, and the proposal for 1984 is the same as it was for 1983, which is \$400 million. This does represent an increase from \$125 million in 1982, and as I may have indicated, the agreement with Spain is awaiting ratification by Spain's Parliament now. Spain also is to receive some economic support fund assistance of about \$12 million for 1984, and it will also receive international military education and training, IMET, of \$3 million for 1984, which is an increase above the previous two years.

I would also mention that in the negotiations with the Spanish, we did make a pledge to do our best efforts to obtain the credits that are needed to assist the Spanish.

Question

Would we have problems with the new Socialist government in ratifying this?

Mr. Morrison

I wouldn't want to comment too much on that, except to say that the Treaty is before the Parliament.

Mr. Shillito

I'm not sure this question can be answered adequately, but a number of us, including myself, in line with the point made that the Soviets are deeply involved in the arms export business, particularly to some of the Third World countries, have found

that a number of these countries appear to be desirous of moving away from the Soviets and more to the U.S. for arms support in a number of instances, and in some cases it would even appear to be instances that would be beneficial as far as U.S. foreign policy is concerned. The question arises as to what, if anything, might be discussed in a forum such as this, such as actions that would relate to stimulating such shifts. Mr. Sienkiewicz, can you comment on that at all?

Mr. Sienkiewicz

Well, we have a good caveat that is the sort of delicate feelings that go on, feeling out quiet communications with several countries, are obviously of a character that can't be publicly described without having an impact on such a negotiation. There are several that I'm aware of; I see them in cable traffic on a fairly routine basis. And I think if you look at the list of major Soviet arms recipients around the world, leaving out the Warsaw Pact, you can probably guess which two or three have a recent history of changing sides. I think I'd prefer to let that one go.

Mr. Shillito

It is something that appears to be developing on the part of a number of countries, however, that I think many of us do sense.

Mr. Sienkiewicz

There is an important caveat here, and it's the point I made at the outset. Resources. If you haven't got the financing, there's nothing much you can do beyond laying out hypothetical diplomatic arrangements. And we have run into circumstances in which the President has wanted to do something and the money has not been there.

Question

Has the relative performance of the U.S. and Soviet weapons in the Israeli-Lebanon war stimulated that process and served as an advertisement for U.S. weapons?

Mr. Sienkiewicz

Many of you probably are closer to the data on that than I am. The seventh floor of the State Department hasn't really noticed. General Gast may have a better sense of it or the Service people who work the problem may have a better sense of it, but I don't feel anything on the seventh floor yet.

Mr. Shillito

My personal feeling is that, having talked to a number of countries who are the recipients of Soviet military support, non-Pact countries, one of the things that has them bothered is that they've lost their warm feeling for the Soviets in many instances, and in a number of other instances the support of the Soviet equipment that they have is pretty lousy. That, in turn, also bothers them very much.

Mr. Sienkiewicz, give us your views on lifting arms transfer restrictions to Argentina. Might it happen in the next few months? Is this still linked in some ways to Chile?

Mr. Sienkiewicz

I know who asked that. I think what can be said certainly is that the Administration's preference is well known. The problem once again is the Congressional agenda clogged with very, very critical issues. Typically what happens at this time of year is that contentious policy questions are set aside while we fight for resources. That fight for resources is this year, right now, even not getting into the whole Central America question, as critical as I have seen it in working security assistance and arms sales over the past half-dozen years. So yes, we'd like to do it. When -- difficult to say. I can't give you a sensible estimate.

Mr. Shillito

Mr. Morrison, many NATO countries seem concerned about the specialty metals laws as regard to FMS sales. What are the prospects for repealing these laws, and what is the current policy regarding specialty metals?

Mr. Morrison

To answer the question maybe in reverse, the way the current policy from the Administration is that we should seek to get relief from the specialty metals restrictions that have been legislated. The Secretary of Defense, in his posture statement that was released to the Congress along with the budget for 1984 in January, indicated that he intends to seek relief from the specialty metals restrictions. The specialty metals restrictions generally will limit the extent to which the United States can procure items with foreign specialty metals in them. Our NATO allies are very much concerned about that. They think in a practical sense it will very much limit cooperation, but they also see it as a symbol of a degree of unwillingness to cooperate across the Atlantic in the production of weapons and armaments programs, equipment. I would say, too, that you may have seen

in the press recently that the Secretary of Defense at the NATO Defense Ministers Ministerial Meeting in December introduced a paper in the Alliance calling for taking advantage of emerging technologies to improve NATO conventional defense. This was a paper that he promised to provide after NATO heads of state and government agreed at their June 1982 summit meeting that this was one of the key areas that NATO ought to exploit. We see in that whole program a way of hopefully improving the cooperation with our NATO allies in cooperative development and production, and making the most efficient use of our resources against the Soviet threat and exploiting whatever technology advantages we do have. I think very much a part of that is the specialty metals restrictions and I think some of the allies have indicated that it will be difficult to make much progress in these cooperative programs if the specialty metals restrictions are not given some relief.

Mr. Shillito

Stan, what is the policy, as far as the U.S. Government political support for potential sales to foreign countries, possibly elaborating on the role of the embassies, the ambassadors, the attaches, and in general, since this is such an important topic as far as most of the persons in attendance here today, what improvements might be under consideration as far as further assisting U.S. industry in this regard?

Mr. Sienkiewicz

You all know, I think, that Jim Buckley's first large official act upon taking office was to send out a cable repealing the Leprosy Letter. It follows logically from also what I said about arms transfers being an instrument of policy that if the U.S. Government decides that a particular transfer should go, that means it's decided it's in the net U.S. national interest that it go. And that means that there should be no inhibition on saying that to the country in question. So as a practical matter, with the caveat, of course, that we're not going to go in to a government and say buy Northrop instead of Grumman or GD instead of McDonnell Douglas. Where there are more than one American competitor for a sale, it's a slightly touchier proposition and we have limits on what we can do. Where it's one American competitor against other foreign competitors, there is, in principle, no inhibition at all to asking the Ambassador or another representative of the U.S. Government to make clear that this sale is viewed as being in the U.S. Government's interest.

Now, there are other problems, again of a procedural kind that we hear about, sometimes in response to these sorts of . . . and that is when you guys aren't reliable. You send it

up to the Congress and then it lies around there for a while and somebody can put the kibosh on it up there, or, in the case of FMS financing customers, the Congress doesn't appropriate enough money. And then things come apart. Those are, of course, much less tractable problems. But part of this Administration's approach was to try to reestablish some sense of reliability about the United States and its international relations. Part of that reestablishing a sense of reliability has got to be dealing with the question of being reliable on a proposed arms sale that a country and an American company negotiated in good faith.

As a practical matter, we're probably a little less smart about expressing that kind of political support than, say, the French. Maybe it's cultural, maybe it's a matter of long-term education. I don't know. But I would hope that we would hear from the industry when such situations arise and such help is warranted. There may be circumstances in which, for one or another complicated reason, we can't do a lot, but we are certainly willing to listen and help where appropriate and possible.

On the procedures question, something I would suggest to the industry, and that is -- and this is only the second year of my exposure to the foreign ministry of this government; most of my professional life has been in OSD -- I find that foreign ministry, like many government bureaucracies, fairly overwhelmed with day-to-day business, which means that there is not a lot of time, energy, and smart manpower available for sitting down and thinking about redesigning procedures, streamlining. This administration is committed in principle to streamlining procedures. The weight of government regulation and management on the private sector ought to be minimized. No question about it. But getting from the commitment to actual useful outcomes is a fair trick, and so I would suggest that it's an appropriate question to put back to the industry. Tell us specifically, with some analysis that allows the people who can take initiatives, to move on them, where there are bottlenecks, where there are procedures that can be smoothed out, where there are steps that can be dispensed with. It doesn't help a great deal if you've got a sympathetic under secretary or assistant secretary or PM director or special assistant to give him a complaint orally, have him not assent, and then essentially not know quite where to go from there. But if you've got some data and some analysis with it, it's much more likely that we can do something useful.

Mr. Shillito

Possibly that approach, rather than being turned in to State on a company-by-company basis should be pulled together in something in the way of a cohesive basis as far as industry is concerned, I would think. As to the vehicle, that's maybe something that warrants exploration.

Jim, there are a number of questions relative to the book that you referred to, and as I recall, that's titled, "The Soviet Military Power," and correct me if that's incorrect. Then how is this obtained? GPO? How do our companies go about getting a copy of that?

Mr. Morrison

The document was printed in a limited edition, I think only 320,000 copies. It is for sale by the Government Printing Office at \$6.50 each. If you have friends in OSD Public Affairs, you might be able to obtain copies from them. They seem to have a supply.

Mr. Shillito

Is that the right title?

Mr. Morrison

Yes, "Soviet Military Power," and it is largely an update of a 1981 document that was prepared under the auspices of the Secretary of Defense. It was released on 9 March, I believe. It does not have a GPO number, but is for sale by the Superintendent of Documents, the U.S. Government Printing Office, Washington, DC 20402. No document number, but it does have 1983 at the bottom. You want to get that one and not the 1981. It was released by the Secretary of Defense in a press conference at the Pentagon. It was also telecast to Europe, I think, to a NATO group over there.

Also, I might mention, too, that after the first Soviet Military Power document, NATO put out its own NATO-Warsaw Pact Force Comparison Paper. There was some criticism of the first booklet that was put out in that it only addressed the Soviet threat; it did not address Western forces at all. NATO then put out their Force Comparison Paper which gives a bit of a balance, both NATO and the Warsaw Pact. This book has some comparative data in it, also, drawing on the NATO document for information on the balance between the East and the West.

Mr. Shillito

There are a number of related questions here that I'll try to pull together in one, and it's not out of the question that this topic also might be raised with General Gast. Both Jim and Stan might each comment on this. Does increased use of FMS credit decrease the probability of direct sales and therefore keep the Services doing what industry could do on a direct basis? Another question is, is there a shift from FMS to country-to-company sales between U.S. companies and foreign countries, and

do you have any statistics as regard this? Would you each comment on that, please?

Mr. Sienkiewicz

I don't have statistics at my fingertips. My impression is that in the past several years, the proportions have not changed dramatically. Now, this is something some of you are familiar with, perhaps. I'm familiar with it from an earlier incarnation in which another industry association helped change the law, first raising the ceiling a bit on commercial sales and then eliminating it. The doomsday scare stories at the time were that, "good heavens, this is going to just open the doors -- commercial marketing of arms -- no control," and so on. Well, the horse trade that was made when the ceiling was finally eliminated was that somebody stuck on a Congressional veto requirement. I'm not sure -- I'd be very interested in industry reaction to that. I suspect it's an added 30 days or 50 days or whatever, I'm not sure precisely, that slows things down a bit but things are already so slow that this is probably a small increment.

My impression about the caseload -- but this is something to ask Robbie Robinson in a later session -- my impression of his caseload of approvals, that is, advisories, is that it's gone up but the level of actual sales seems to be relatively constant on the order of less than two billion over the past several years. So I think that expected, anticipated large change simply hasn't occurred. There is presently a more detailed management question on the table with respect to this issue. We've had a law passed independently at the substantial effort of one company that was originally an administration proposal. But you know, we didn't get an authorization bill and so that proposal languished. That permits, in certain very specific cases, the U.S. Government to sell components produced by the U.S. Government to a private corporation for inclusion in a commercial sale. Now, that allows us, in some particular cases, to do things a little more easily in management terms and it allows us also to do some things that are desirable politically. But there is a bit of controversy right now as to precisely what criteria ought to guide it and who's in and who's out.

Mr. Morrison

There was a story that when Secretary Harold Brown testified at his confirmation hearings that he wrote on the back of his nameplate, "Say less - stop." With that guidance, I would like to say nothing on that and maybe defer that question to General Gast, who might address it this afternoon.

Mr. Shillito

Yes, but he might look at the back of his nameplate.

With the increased sales grant of sophisticated weapons systems, is there any policy change to improve the MAAG mission capability as far as support, logisticians, etc., re keeping such equipment in operation -- the opinion being that this is presently a deficiency and as I inferred a few moments ago, this indeed has been one of the problems that some of the countries who have received Soviet equipment, some of the problems that have caused them to become less enamored with the Soviets. Is there anything to bring about an improved support in country as far as the U.S. is concerned in just a number of instances where this is terribly important?

Mr. Sienkiewicz

It is terribly important. I spent a long term wandering around the Services in DSAA a year or so ago on this very question, and it was absolutely clear to me that we worry the problem to death. But once again, what you can do is limited by a combination of resources and Congressional restrictions. The law now says that countries with I believe it's over 6 such personnel have to specifically be approved on an annual basis in the law. We have proposed an increase in a number of those countries. We have proposed to add some countries to that list, I think 8 or 9. You would be surprised at how much resistance there is and how much criticism there is on the Hill to this sort of an exceedingly modest proposal. My own simple-minded view is that this is a case of micromanagement in the extreme. There is nothing wrong with the Congress essentially saying, look -- just like you give us a country breakdown of proposed security assistance and foreign aid levels, you can also give us a country breakdown of your proposed support manning levels, and we will look at it and if we have objections, we'll argue with you or we can write provisions in the law that change it. But that would be my preference for an approach. But now the law says essentially that the burden of change, even very small management change, Phil Gast and his Service colleagues can't do anything without going and getting the law passed. You can't add, in a couple of cases, a handful of people. So that's a Congressional restriction that is difficult.

There is a larger issue here and this is one where my sense is that the industry ought to be spending more time talking to DSAA and the Services, because I recall in arguments about eliminating the commercial ceiling that the line I got from some people then in the Administration (I was, of course, then on the Hill) was, "No, no, you can't let these guys go off and do a lot commercially because in fact in order to make the sale,

they'll cut prices, they'll cut support, and we, the Air Force, or we, the U.S. Government will have to pick up the pieces." On the other hand, people I talked to in the industry essentially said, "Hogwash, nonsense, we have a commercial interest in supporting our sales efficiently and effectively so that we get repeats down the road." It would be nice if that sort of a mixed message did not hit the Congress every time a related question arises.

Mr. Shillito

Jim, any comments on this as far as you're concerned, DOD, and such in-country support?

Mr. Morrison

No. Again, I think I would defer to General Gast on that.

Mr. Shillito

General, you're going to have an awful lot to do.

Mr. Sienkiewicz, how do you explain the recent delivery of military jet trainers to Chile by Spain that are powered by American engines? Doesn't this violate the prohibition of arms transfer to Chile? Why wasn't, or was Congress notified on this? The press reports say the engines were commercial, but again, doesn't this violate the spirit of the prohibition?

Mr. Sienkiewicz

I have to plead stupidity on the specific issue, but you've just given me the answer in the way you concluded it. Let me speculate -- probably most of you know this. If an item is not on the munitions list, falls under the purview of the ITAR, that is, it's under the Export Administration Act, which is essentially the purview of the Commerce Department, different piece of legislation, it's covered by a regulation of arms traffic, our one legislative bundle reviewed each year in our authorization bill. If it doesn't fall under that purview, then the restrictions that are stuck on the Foreign Assistance Act or the Arms Export Control Act don't apply. So my guess is in this case, the engines were Export Administration Act purview and therefore, permissible. I don't know, as I say, the specifics of the case.

Mr. Shillito

Mr. Morrison, are credits for Spain in the FY 83 or FY 84 budget? Roughly what's the amount of the credits? Are any of these credits available for purchases directly from U.S. contractors?

Mr. Morrison

The amount of the foreign military sales financing credits for Spain for 1984, as well as for 1983, is at the level of \$400 million each. Stan, I don't know whether you can help - -

Mr. Sienkiewicz

Absolutely. Those of you who don't know, U.S. Government financing is for the purchase of U.S. equipment. Offshore procurement, so-called, is a no-no. By and large, we don't permit it. You can't take U.S. FMS credits and go buy something in France.

Mr. Shillito

I think that's pretty crystal clear. Is there a question from the floor?

Question

It wasn't my question, but the question was can they be used to buy from U.S. industry?

Mr. Sienkiewicz

They are. Only from U.S. industry. The question of whether it's an FMS, that is a government-to-government sale, or a commercial sale is a separate question. Sometimes it's a matter of efficiency, sometimes it's a matter of U.S. Government preference in terms of the support that goes along with it. But it's really a different question.

Question -- Cannot be understood

Mr. Sienkiewicz

That is in fact correct. My impression is that it's happened once in our history on a relatively small case.

Question

Is it true, then, that FMS credits can be used to purchase directly from a U.S. contractor by a foreign country?

Mr. Sienkiewicz

Yes, that's correct. Again, subject to U.S. Government approval.

Mr. Shillito

Stan, as a carry-over from the Carter Administration, expenses connected with marketing FMS are still a disallowable cost -- that's not quite right, but that's what the question says. What are the chances of a change in this? What are the chances in bringing about an authorization or allowance for such expenses?

Mr. Sienkiewicz

I don't know, but I'd love to have a fairly specific pitch made by industry and I'd be happy to have it staffed and see what the Administration's reaction would be.

Mr. Shillito

I'm not sure that statement is exactly right. It's minimal, the way it's set up right now. Isn't that right? What is it, \$50,000 or something like that? And it's probably something that you may want to address, General Gast, when you have the opportunity, because it is a fairly key point as far as U.S. industry is concerned.

Mr. Sienkiewicz

I suspect, though, just thinking about that for a minute, that that's a question that goes rather far beyond the writ of the State Department. You've probably got tax policy implications, Justice Department interests, so it's likely to be a fairly complicated thing to pursue.

Mr. Shillito

Do you have any comment on the U.S.-NATO MOUs or reciprocal procurements that we haven't touched on so far, either Jim or Stan?

Mr. Morrison

My only comment would be that we support these Memoranda of Understandings and also realize that the specialty metals restrictions will be probably detrimental to helping to encourage these Memoranda of Understanding, encourage them along, and it goes back to the issue of the need for relief from these restrictions.

Mr. Sienkiewicz

You all, I think, are well aware of the fact that there's a very large political layer of baggage underneath or above this kind of a question. Sure, more U.S.-NATO collaboration on

procurements; the division of labor; getting the newest, most effective technology into a piece of NATO equipment. All of those are good things. The record, in fact, is that we've done previous little of it. It's a hard, hard thing to do for lots of reasons that many of you are familiar with. Some MOUs that I used to see on the Hill caused severe heartburn on questions of sales territory. We do not share the same view of where we want to sell our equipment to some of our NATO allies. There are a variety of other reasons that have to do with the virtual impossibility of defining where the thresholds are for one side or another to veto sales. Very, very complicated political/economic issues involved in that one.

Mr. Shillito

A question that will apply to both speakers and I must say, in all honesty, I'll have trouble keeping my mouth shut deals with Japan. The question is one that has concerned many of us for a number of years, but particularly recently. It seems inevitable that Japan will change their laws and export arms worldwide. Since their government supports their industry so strongly, U.S. industry will tend to be at a competitive disadvantage. As nations become less dependent upon U.S. weapons systems and more dependent upon Japanese systems, this will develop and of course, it will be caused, again, by the cost, the price, conceivably. And a significant percentage of U.S. control or involvement with our allies will be lost. How about some comments on the part of you two gentlemen as regard this?

Mr. Sienkiewicz

We already have the problem in somewhat lesser magnitude with some recently emerging arms producers who were sort of third and fourth and fifth on the list for the past decade. You've got countries like Brazil, South Africa, Austria, Korea. We've got the whole slew of collaborative arrangements with Korea for producing this or that piece of equipment. The Koreans, in a small way, like the Europeans, though, find that they cannot economically justify production of some piece of equipment for their consumption alone. This is why European aerospace industry is essentially such a vigorously flogged activity in terms of foreign sales. But there's a policy choice made by those governments that they want to sustain aerospace industry in France or in other countries in Europe. The Koreans have invested in certain kinds of production capabilities; they want to sustain them. The other side of that coin is that it's in our interests to have some warm production base in certain areas of equipment with allies. Japan is a hypothetical case. We've got some real problems on a lesser scale today with a number of countries. In some sense, it is a simpler problem where there aren't the entanglements of an alliance, where we have interests, as I say, in a production capability in those other countries,

as well as protecting our own. It's simpler, for example, if you're talking about South African competition or Brazilian competition. I don't know. I don't see a clear, simple, easy way out of this. It's just going to get worse.

Mr. Morrison

Because of my European responsibilities, I would give you my time if you wanted to make some comments.

Mr. Shillito

No, I'm afraid that I'm not sure how beneficial my comments would be. I've been very concerned over the past 10 years as I've watched the acquisition of so much in the way of not quantitatively or economically, military equipment by Japan from the United States, but the inclination on their part is to invariably purchase from us even at significant cost the technology as related to most complex equipments, and developing the capability of producing these items at very significant costs on a onesy-twosy basis versus the United States. They are now going to be in a position where they can accelerate the production on many of these things and it's going to be something that is going to present some very decided problems. I just don't have the answer and I don't know that we've faced up to the answer in many of our companies and in our country and I don't know that we've faced up to the answer as far as international/national security.

Stan, doesn't the White House have discretionary funds for emergency security assistance? What's the policy for determining specific items on the security assistance list?

Mr. Sienkiewicz

Well, there are authorities in the law that permit the President to draw on resources on a fairly urgent basis within certain limits. There's the 506A Draw Down Authority, which basically means that he can go steal from the Defense Department equipment and services. And there's in theory standing authorization to repay the Defense Department, but then you have to get it appropriated. And we've used it, of course, in El Salvador in recent years and elsewhere. Then there's always the painful squabble -- sometimes interagency, sometimes with the Congress -- about getting it repaid. That's limited; \$50 or \$60 million is not going to fight you a major war anywhere. It is explicitly couched in terms of emergencies. That is, you don't casually come up and say, "You didn't give us enough for this country. Things are quiet there but we'd like to sort of fulfill this year's program." There are other emergency authorities which we use far more rarely, which amount to waivers, basically, to take money from other parts of the Assistance Program. There's now a limit on that -- 614 waiver, the ceiling on that I think was imposed

last year up to \$250 million, which means you can steal from other countries. The problem, of course, is that in a very tightly drawn, and I believe -- I have been engaged for two years in the budgeting of this Administration for Security Assistance, Foreign Aid, more generally -- I believe it is a tightly drawn program. There is no slop. Every time a Jim Buckley or someone wants to propose a contingency fund, a modest contingency fund, that's the first thing that gets cut on the hill. Contingency funds don't have an attached and visible client, and yet contingency funds are critical to being able to respond to the kinds of concerns that underlie the question. So we don't have contingency funds. We have the authority, on an emergency basis, to steal from -- who? Korea? Israel? Egypt? Turkey? Greece or Spain? To fund El Salvador? And we run the risk in doing something like that of Congressional opinion being unhappy with the enterprise and changing the law to remove the emergency authority.

So, no. There are not funds that you would call either discretionary or easily available to the White House. There are opportunities to respond, but they're very painful and they cost you.

Mr. Shillito

Is there anything specific that you might mention that is taking place as regard initiatives to help friends and allies upgrade older U.S. equipment, tanks, artillery pieces, and so forth, that really hasn't been discussed in many ways too much in the press, this being a topic that keeps coming up on the part of many of these countries over and over. Is there anything that either of you might talk to on this point?

Mr. Morrison

I might just make one comment by illustration. That is that for instance, the program with Turkey calls for an upgrading of its tanks with modification kits to upgrade those tanks. Working with the Turks, I think that's a very good thing that we can do to modernize their equipment, by way of illustration.

Mr. Sienkiewicz

As a matter of fact, if this were more politically marketable, we would want to do more of it in general, simply because many of the countries of greatest concern to us are poor. Upgrading an M-48 is a heck of a lot cheaper than shipping in a brand new M-60, although there are arguments to be said on the score, as well. Certainly, it's a lot cheaper than trying to buy an M-1. There are political difficulties with this, because for many of these countries, there is a political value placed

upon newness, stuff that's in the U.S. active inventory, the appearances of first line. In some sense, first line is often equated with first order of importance to the United States. So we sometimes find it difficult to persuade countries to do something more practical and cheaper with their programs. But it's a useful thing to do. In this year's legislation there is a modest, again, modest incremental proposal that might help us on this score and that is to allow the President to waive, in selected cases, repayment of funds to the U.S. Treasury from the sale of old U.S. MAP equipment. If we can, for example, suggest to Turkey that they sell some of their stuff off and they might keep what they get out of it and apply it to modernized equipment, I suspect that in some cases this would be a very useful thing in terms of modernizing some forces that we anxiously want to modernize. But it's not a big deal.

Mr. Shillito

One quickie -- there is never an issue as regard dollar value on technical transfer, is there? Is there ever an issue as regard placing a dollar value on technical transfer? Money is never of consequence in the subject of technical transfer. What is your experience in placing a dollar value on technology transfer?

Mr. Sienkiewicz

I guess I'm still not sure of the question, but the issue of technology transfer is simply the issue of keeping our top-of-the-line technologies out of the hands of the bad guys. That means looking very carefully, not just at countries where security arrangements might not be up to our standards and then trying, if we're anxious enough to make transfers of American equipment, trying - - -

Mr. Shillito

Is there an issue as regard placing a dollar value on the technology transfer? Is that a portion of the decision-making process?

Mr. Sienkiewicz

Not in any way that I'm aware of. We sell technical data packages. I mean, we sell technology per se and those sales are negotiated, I assume, on the basis of price that the buyer and seller will agree to. The U.S. Government's interest is to be satisfied, if it's sensitive technology or top-of-the-line technology, that it's not going to be compromised. So our interest is really of that kind. Well, it's not even limited to

that because obviously we are concerned with some of the things we were talking about a few minutes ago and that is, what does it do with respect to production that might ultimately compete with U.S. production, and there the Congressional interest, of course, is very strong.

Question -- (Cannot be understood)

Mr. Sienkiewicz

No, the law is phrased in terms of major defense equipment, typically, or defense articles and services, so if it's a, I assume, a TDP that's above a threshold limit, it gets notified just like a hardware transfer above a threshold.

Mr. Shillito

Okay -- we're going to break. We wind this up by thanking our panelists for doing an outstanding job in covering the vast majority of our questions. I'm sorry we didn't get them all covered, but we again thank you very much.

LUNCHEON SESSION

Mr. Shillito

Our luncheon speaker is a gentleman that is known by many of you ladies and gentlemen. He is the former Permanent Under Secretary of State for the United Kingdom for their Ministry of Defense. He has an auspicious background. He has been retired since the end of last year, having spent virtually his entire career with Her Majesty's Government. He is a sailor, a statesman, an educator, and interestingly, an aviator, having been part of the RAF during that period of time that so many of us remember so well -- 1941 to 1946, both a Spitfire and Hurricane pilot during that period. I was remarking to him at lunch that I found myself fascinated by his background and noting that particular period of his bio -- you think back 40 years ago, at least for myself, and I found myself as one of the earlier shot-down pilots in the Eighth Air Force and in arriving at the POW camp as a guest of the Third Reich, all of the folks who preceded me were British. Many of them had been there since Dunkirk. So here this group of totally unkempt and rather hard-to-control Americans arrive in this POW camp with these Brits who had been there for quite a few years, and we find ourselves in the same quarters with these same folks -- blocks, they were

called. Immediately we saw on the doors of their rooms -- and there were 18 to 20 in each of these lovely rooms -- on each of their doors, they had their names printed and behind their names, of course, they had listed all of their decorations. This went on and on and it bothered us for a few days, but in typical American fashion, in a matter of a few days, we proceeded to put different initials behind our names, like AFofL, CIO; I know I had WCTU and the UAW down there. At any rate, as I say, this went for many weeks. After that, our British friends were not sure what all these things meant behind our names and when they did, it led to quite a convivial get-together naturally.

As I say, I'm a little bit envious in some ways as I make these somewhat facetious remarks because our distinguished speaker has so many recognitions and so many awards that it would truly be impossible for me to do justice to that which he has accomplished over the years. We're delighted to have as our luncheon speaker Sir Frank Cooper.

Sir Frank Cooper

Thank you very much indeed for that introduction. I feel rather like the cuckoo in the nest here, but I can at least say that it's well over 40 years since I first came to the United States and I've been here fairly regularly ever since. I've been a private citizen for the last 10 or 11 weeks and this has certain advantages in the sense that unlike Counselor Designate Derwinski, I do not have to send my speeches around for everybody to go and make suggestions. I've spent many years of my life having to do this and one of my colleagues reminded me of a very old story that is current in the corridors of Whitehall which is that as the file went round, various people added their comments on suggestions that were being considered and eventually the papers would reach the man who had got the power of saying yes or no. So one file was wending its way through many hands and everybody was adding their few words, and against one paragraph in large capital letters was written, "round objects." When it got to the man who had to make the decision, he wrote on the file, "Who is Mr. Round and what does he object to?"

What I would like to do in a short space of time is to try and give you a view of how I, myself, see the subject you're discussing from a European, particularly a British, aspect. I don't think anybody would have any doubt about the whole range of issues that you are making the subject of your seminar are intensely political in both an internal sense and in an external sense. I don't think anyone has any doubts that they are also very complex in terms of the industrial ramifications, the technical processes, and, of course, the financial consequences.

Indeed, if this were not so, you wouldn't be having this kind of meeting.

Now, foreign arms sales are very, very large business indeed. In 1979, which I think is about the last year for which there are any supposedly accurate figures, the world arms exports totalled some \$24 billion, which is around 1.5% of total world exports or, to give another comparison, about 1/5th of motor car exports throughout the world. In terms of world military spending which totalled \$567,500 million, exports accounted for roughly 4% of total expenditure, but if you take out of those totals the U.S. and Soviet expenditure, exports are around 10%.

Again, if we leave the U.S. and the Soviet Union military expenditure out of account, it looks as though if developed countries take only about 1% of their total military expenditure in terms of imports but that developing countries take somewhere around 15% of their total military expenditure in terms of imports. In other words, it's the developing countries which take 80% of arms sales.

The Soviet Union is very much the largest arms seller. The United States follows but is quite a way behind. But it is interesting that four European countries -- France, Germany, Italy, and Britain -- sell more than the United States when they are put together and very nearly sell as much as the Soviet Union. It's also, I think, interesting, as was mentioned this morning, that quite a number of new countries are emerging into the arms sales field in quite a substantial way. In the last decade or so, Israel, Brazil, Argentina, India, and South Africa are all becoming quite significant arms suppliers in their own rights. The picture is further complicated, of course, by the fact that there are special relationships between various states. For example, between the United States and Israel, and by the Soviet Union with Syria and Libya.

The plain fact is that the market is getting increasingly competitive and that there are more people competing in the marketplace. It is also full of contradictions, many of which are virtually irreconcilable. For example, the general Western attitude -- and particularly that of your country -- in the 1970s to arms sales to South America, gave a very big fillip to the development of armaments industries in those countries. That is why some of them have emerged increasingly as major arms suppliers in their own right. Brazil may now export to as many as 30 countries. The Libyan sands are actually surfeited with vast quantities of Soviet equipment and Libya in 1979 alone bought more than 2,000 million pounds worth of arms from the Soviet Union, greatly adding to the Soviet Union's foreign currency reserves. Israel is a substantial purchaser of arms from the United States, but is a substantial seller to South Africa

and to parts of South America to which the United States will not sell.

None of this is meant to imply that either in Europe or in the U.S. decisions about whether to sell to a particular country are taken casually. As we heard this morning, this is not so in the United States and it's not so in Europe. Many factors are and have got to be taken into account and it's inevitable that governments are involved and that they will remain involved. If one lists one or two of the major factors, there's the whole question of the political/defense relationships between the seller and the buyer; there's the balance of power considerations in the region concerned; the historical and traditional links between various countries; there's military security and whole questions of technology transfer; there's international morality, particularly questions of human rights; there's the type and the quality of the equipment and its capability -- is it offensive or is it defensive? There's international competition which is increasingly becoming a spur between countries which are finding considerable difficulty in keeping their industries going in times of high recession; there are industrial pressures and I don't need to say anymore about that. There is reduction in defense overheads; balance of payments issues; there's linkage with other commercial activities of one kind or another; and there's the acquisition or the maintenance of security facilities of one country in another country.

This list is by no means complete. The important thing is that different values are placed on different headings by different countries and those values change from time to time in the light of the objectives of the countries concerned. What is true is that there is no clear set of rules and to me, it appears very unlikely that a really clear set of rules will ever emerge. It is also true that trade is increasing in a very substantial way and that this is also going to act as a spur to the selling of arms. Moreover, nations will continue to press their case for the inherent right to defend themselves and to regulate their relations with other countries. Lastly, arms limitation and control has concentrated almost exclusively on the nuclear field and one consequence has been a lack of interest and action in the field of conventional armaments. In short, it still is and I think will remain very much a case of individual countries adopting their own policies in the light of their own national interest as they perceive it.

What we in the NATO Alliance must continue to work at is to ensure that so far as is possible, the values we place on the criteria by which decisions are taken, whether or not arms are to be sold to particular countries outside the Alliance, should seek to achieve objectives which are reasonably common between the members of the Alliance.

As regards arms sales within the Alliance, there is, I suggest, a greater need than ever for good communications between us all to establish a proper mutual understanding. To the extent that we fail in doing that, we play into the hands of the Soviet Union.

In this context, I'd like to draw attention to the continuing rise in the real costs of successive generations of defense equipment since the end of World War II. There are, I think, three main reasons for this rise. The first is the introduction of entirely new technology, and I don't need to give any examples of that. The second is one I would call major new twists in technology; for example, switching to short take-off, vertical take-off, turning torpedoes into true guided missiles, towed array sonars, and so forth. And thirdly, there is a straightforward cost growth arising from more complex equipment.

Broadly speaking, it seems likely that -- and leaving inflation totally out of account -- the rise in the real cost of much defense equipment in terms of capital production costs may well be as high as 5 or 6 percent per annum and that the cost of successive generations of equipment increases, and again in real terms, by something like 2 to 6 times. Now, these increases have shown very sharply in terms of ships and aircraft, but the Army, I think, is now trying to catch up with its sister services and if one looks for example at the cost of a tank, that is now escalating in real terms in a very large and substantive way.

A further manifestation of this problem is that the ratio of research and development investment to the spend on production has been getting less and less healthy. There's also a phenomenon known as the relative price effect, which seems to mean that defense expenditure and defense costs rise rather faster than costs in most other areas, for reasons which are complicated and I would not go into at the moment. But that could well add another 1 or 2 percent in terms of a real rise in costs.

The consequences are not all negative. Equipment comparisons are notoriously difficult to make and defense output is difficult to measure. What is like with like? How much weight can be given to multi-role equipment or to new and different roles? What weight can be given to increased effectiveness, to better performance, to increased reliability, and lower maintenance costs? Moreover, in some cases, it is possible to reverse the balance, for example, by using less manpower, and there are numerous possibilities there if we actually think about them and take them seriously. Nevertheless, the fact has got to be faced that we are faced with a real threat in terms of the amount of equipment that can be bought for a given sum of money, and

that's also got to be viewed, I suspect, that in all Western countries defense expenditure will have its ups and downs over the years. There is no reason if one looks at the past to suppose that it will always go up. It's going up in your country; it's going up in my country at the moment. And a very good thing, too, because there's no doubt it's badly needed. But we cannot assume that that situation will persist. Nor is there any grounds for assuming that the real rise in cost of equipment is going to keep pace with the rise in the amounts of resources made available by governments. On the contrary, the evidence, in my view, is quite strongly in the other direction.

So this poses a serious threat to sustaining commitments, to the numbers of equipments that can be bought and to be deployed in service, and to the spread of roles and capabilities that can be acquired. It poses a special threat to the improvement of conventional capabilities and to the lifting of the nuclear threshold, not least by the acquisition of increased war reserves of one kind or another.

At present, the rest of NATO -- and that means, in this context, leaving out the United States -- has got some 3 million men and women under arms and 6 million if you include reserves. The United States has 2 million and 3 million respectively. Clearly, it is imperative that these forces are properly equipped with modern equipment and that the right political climate is maintained within the Alliance to sustain them.

The fact is that protectionist attitudes are on the increase, fueled, undoubtedly, by industrial recession and high unemployment in virtually all countries. I think we all accept that genuine efforts are being made in some areas, both within the Administration and in Parliaments and Congresses to iron out some of the problems. But no one should be under any illusion that protectionism will lead to anything other than a European backlash, and Europe is still a large purchaser from the United States. The most striking example of those purchases is, of course, the decision by the United Kingdom to replace its POLARIS submarines with TRIDENT, which will put many billions of dollars into U.S. industry.

Let it be clear that no one is asking for preferential treatment. But surely statements that equipment will be obtained competitively from a U.S. manufacturing source located in the U.S., or Congressional language that none of the funds may be obligated until there has been a submission on appropriations containing a certified plan to incorporate U.S. manufactured equipment can lead only to protectionism, to retribution, and to a war of a commercial kind within the Alliance. The only interest that can serve is that of the Soviet Union.

We heard a little about specialty metals this morning in which a great deal of damage is being done to the Alliance, but I am confident that it will be possible to sort that out. But we need to ensure that it is sorted out because it could do a great deal of damage if that does not happen.

The NATO Alliance cannot afford the waste of a defense trade war in either political or security terms. Political problems abound and there is no need to add to them. Disputes are damaging and debilitating, and play into the hands of the Soviet Union. There are real difficulties. No one should underestimate them but great efforts are needed to resolve them.

I'd like now to say a few words on technology transfer. There is clear evidence that Soviet military developments have been advanced by the acquisition of Western technology, acquired overtly or covertly. There has been evidence for many years of Soviet interest in published technical data which is published with great freedom in many Western countries. There is evidence that the problem of control is getting more difficult and not easier, not least because so much technology is now commercially driven, just as much as it used to be almost exclusively defense driven. Let me say that I believe that Britain shares the growing concern expressed by the present U.S. Administration over the transfer of high technology with a military application from West to East. Logic must support the underlying analysis that any short-term commercial gains from trade in advanced technology with a military application are more than outweighed by the erosion of the qualitative edge that the West has enjoyed over the Warsaw Pact in military equipment over the years. It also supports the increase in defense budgets that have been required and still are required to re-establish that lead. Logic must also support the standing principle taken by the present United States Administration to exercise more rigorous control over trade in advanced technology and to crack down on transfer by illegitimate means. The key criterion must be the identification of those areas where the Soviet Union has a demonstrable technical inferiority to the West. It is on those areas that we should concentrate.

It's got to be recognized that European perceptions of this problem do and will continue to differ in certain respects from the United States. For the Europeans, overseas trade forms a very much high proportion of their gross national product than it does for the United States. And this trade is concentrated predominantly in manufactured goods rather than materials or in agricultural produce. Britain sends only 2 percent of its total exports to the Warsaw Pact, but the proportion is far higher for both France and the Federal Republic of Germany. For this reason, many Europeans believe that controls on the transfer of

high technology must be linked very closely to areas of proven military significance. The difficulty again is in identifying exactly what is of military significance. But many Europeans are not looking for an economic war with the Soviet Union and they're not convinced that items of very indirect significance such as oil and gas equipment should be controlled. I think Europeans also tend to be cautious about mixing controls whose primary purpose is military with ad hoc measures designed as a political response to developments in, say, Poland or Afghanistan.

To be effective, controls on the transfer of technology have got to be as clearly defined as possible, uniformly agreed, and presented in such a way as to command the support of governments and industry. This means, I think, that certain criteria have got to be achieved. These are, first, that a technological gap has to be clearly identified. Secondly, that equipment or technology should not be available from other sources who are not party to the arrangements operated by the Western Alliance. This again is a formidable problem to deal with and it's going to get worse and not better. Thirdly, that controls should be imposed only when they can be effectively implemented. Otherwise, the whole system falls into disrepute.

Negotiating and agreeing a framework of controls which meets these criteria inevitably presents very considerable difficulties and takes time. I think the United States should not get too impatient. But the penalties from divisions within the Western Alliance seem to me to be far greater if, as the pipeline issue showed, we do not move ahead in unison.

There are some signs that preoccupation with technology transfer is leading the present Administration to curtail long-standing scientific exchanges with America's allies, both in industrial and in government circles. The rationale for this is hard to understand. The dangers in it are high. I cannot believe that the United States takes the view that Britain is a major source of leakage from West to East. There's no evidence to support this and indeed, I think there are some in Britain who would say that the major source of leakage is from the United States. Now, let's hope that all this simply reflects the naturally cumbersome way in which all bureaucracies behave. But if developments of this kind did reflect some kind of desire to introduce new disciplines, then I suspect we shall get the worst of all possible worlds. There can be no justification for policies which are more likely to undermine our defense capability than to impede the military advances which are being made by the East.

I would like, myself, to register particular concern over the risks that arguments over technology transfer pose to

collaborative projects. The two topics cannot be entirely disentangled. Today's collaborative project may be the export of 5 or 10 years time and a difficult balance has got to be struck in a clear and far-sighted way at the start of a project and not when it comes to fruition. There is very considerable concern in Europe that this balance is not being struck and about the extent to which attitudes and measures in Congress and the Administration could adversely affect the amount of conventional defense that the West can afford to buy.

The emphasis in the United States on industrial leadership in collaboration is all very well, but it will not work if the governments, both here and in the other countries concerned, do not actively seek to promote cooperation and collaboration. The truth is that in all countries, defense industries sell almost exclusively to governments, and they're naturally very sensitive and responsive to them and they want to know answers to some questions. Does the government favor collaboration and cooperation or does it not favor it? Is it prepared to go ahead in this particular area and if so, with which other country or countries? Now, these are quite simple questions, but all governments find great difficulty in giving answers to them. Moreover, industrial defense partnerships in the United States between U.S. and European companies are by no means without major legal and security pitfalls. It is not a time for shortsightedness in political terms and indeed in defense terms because the need for cooperation and collaboration clearly supported by governments grows stronger, and the need will, in my view, increase over the years.

Now, what I've tried to do is simply to highlight some of the problems. They are very difficult ones but the increasing threat and inexorable rise in weapon costs make it more important than ever that we should get the most out of every dollar or pound we spend on defense equipment.

Sharing the investment we need to make in developing military technology through cooperative programs, and making the most of these investments through a genuine two-way street in defense trade, which allows longer production runs, are the foremost ways of doing this. The added bonus we get is a high degree of interoperability and a much greater amount of equipment that we can afford. The Warsaw Pact enjoys this naturally, and has an advantage over the West in this respect.

Protectionism and technology transfer difficulties are serious obstacles to achieving these objectives, which I believe we should all share. Protectionism is self-defeating, as we saw in the 1930s. We must all carry the message that even in the short run we shall do ourselves and the Alliance irreparable damage if we pursue parochial and beggar-my-neighbor policies.

In the technology transfer area, whilst endorsing the principle, I would urge the U.S. Government to recognize that a hand-fisted or indiscriminate blanket approach to all these problems would be both insulting to their friends, divisive, and cause more damage than it does good. The U.S. has allies which it can and should trust. It also has allies which can make a very useful contribution to its own defense and to its own technology. Those allies are very ready to do so in the right -- and by right, I mean competitive -- conditions. I need only remind you here of a few items demonstrated over the years. For example, in my own country we provided the angle-deck for carriers; we provided vertical take-off; we provided the ski-jump. One could go on with various other lists. So it must be in the West's interests as a whole that we try and find proper solutions to the kind of problems that I have been talking about. Because we in the West, faced as we are with a monolithic Soviet Union, which is not going to change in the short term -- we're in the long haul business here. But we must harness our vast talents. We've got to work together, for it is that togetherness, with our alertness and defense preparedness, which will continue to guarantee our security.

Thank you very much.

Mr. Shillito

Sir Frank, we can't thank you enough for just a superb address. Sir Frank has expressed his willingness to take a question or so before we adjourn to our next session. Would anyone like to raise a question?

Question -- (Cannot be heard)

Sir Frank Cooper

I think that was taken very clearly into consideration indeed. If you look at the percentage of the Western European economy that would have been dependent on gas from the Soviet Union, it would have been very, very small indeed, and in relation to the overall trading relationships, particularly between the Federal Republic and France and Warsaw Pact countries, it was very much a drop in the ocean. But let me be quite blunt about this. One of the things which was almost impossible for Europeans to understand was how the United States could go on selling grain to the Soviet Union. Now, there are some logical arguments -- it's debilitating the Soviet Union's foreign . . . etc., etc., etc. But I'm afraid in terms of the man in the street or even the government in the street, these distinctions are so fine that they're impossible to put across and get people to comprehend because just as Germany, in particular, saw the pipeline

as something which would aid its economy, which is the light in which it did sit, and so did, I think, most of the other middle-European countries so, too, was the interest in supplying grain seen. The world unfortunately -- or perhaps fortunately -- doesn't run on logic, but actually to get these distinctions explained in a convincing way is frequently well beyond the skill of any government.

Mr. Shillito

Again, Sir Frank, we can't thank you enough for the excellent luncheon address.

We'll now move to the same conference area where we were this morning as we move into Session II. Thank you.

Recording difficulties in the afternoon precluded any verbatim transcription of Session II, FMS Programs, and Session III, FMS Procedures. Data provided for the afternoon sessions is reflected in the following charts and two prepared presentations. It is regretted that the substance of these sessions is not available.

Lieutenant General Philip C. Gast

It's a genuine pleasure to be here today and to have the opportunity to discuss with you a number of aspects of our security assistance and arms transfers programs with friendly foreign governments. These are subjects which tend to evoke strong reaction among different public groups; some express their outright condemnation about providing arms and military services to other governments, while others applaud our efforts to assist friendly countries and recognize that our military assistance is essential not only to our global defense posture but also to the stability and security of the Free World.

As I look around the room, I see an awful lot of you and only one of me. Since I'm going to be up here for the next hour and a half, I'd like to talk about security assistance for part of this time, and then open the floor for your questions. I'm at least as interested in hearing from you as you are from me. After all, you represent that important segment of American society involved in producing defense articles not only for our friends abroad, but for our military services as well.

This brings me to an important point I would like to make, even before getting into the specific issues I came here to discuss. The point is this: except for the need to protect sensitive technology, the need to avoid overloading other countries, the need to watch regional balances, and meeting the priority needs of U.S. Armed Services, and assuming it meets our foreign policy objective, we want our friends to have quality defense equipment. This includes critically important follow-on support in the form of spare parts and the training necessary to operate and maintain major end items.

Having said this, I'd like to talk about the following broad topics:

- Major goals and objectives of security assistance;
- USG-Industry cooperation;
- FMS and commercial arms sales;
- Procurement planning;
- Security Assistance financing;

and then talk briefly about some security assistance misperceptions.

This is a full plate, so let me start by discussing some of the broad objectives underlying our security assistance program.

SECURITY ASSISTANCE:

DOMESTIC BENEFITS

- CREDITS ARE SPENT IN THE U.S.
- CREATES AND SUSTAINS JOBS
 - \$5 - \$10 BILLION IN DELIVERIES = 200,000 - 300,000 JOBS
- AT LEAST \$3 BILLION IN COST SAVINGS TO SERVICES (1979 - 1982)
- DOMESTIC BENEFITS ARE REAL, BUT SECONDARY TO STRATEGIC GOALS

Given your interests and involvement, I don't have to go into any lengthy explanation of the benefits to U.S. security we derive from our international military assistance programs. But they are extensive and important. Let me briefly mention some of them. The broad objectives of security assistance, as I see them, are to:

- Provide for mutual defense support and cooperation in deterring Soviet aggression or aggression aided and abetted by Soviet-supported forces.
- Help friendly countries preserve their independence against a background of external threats and internal instability. In short, our programs contribute to regional stability.
- They also assist other countries to make the most of their own resources and capabilities to defend themselves, to maintain internal security and to participate in collective security arrangements.

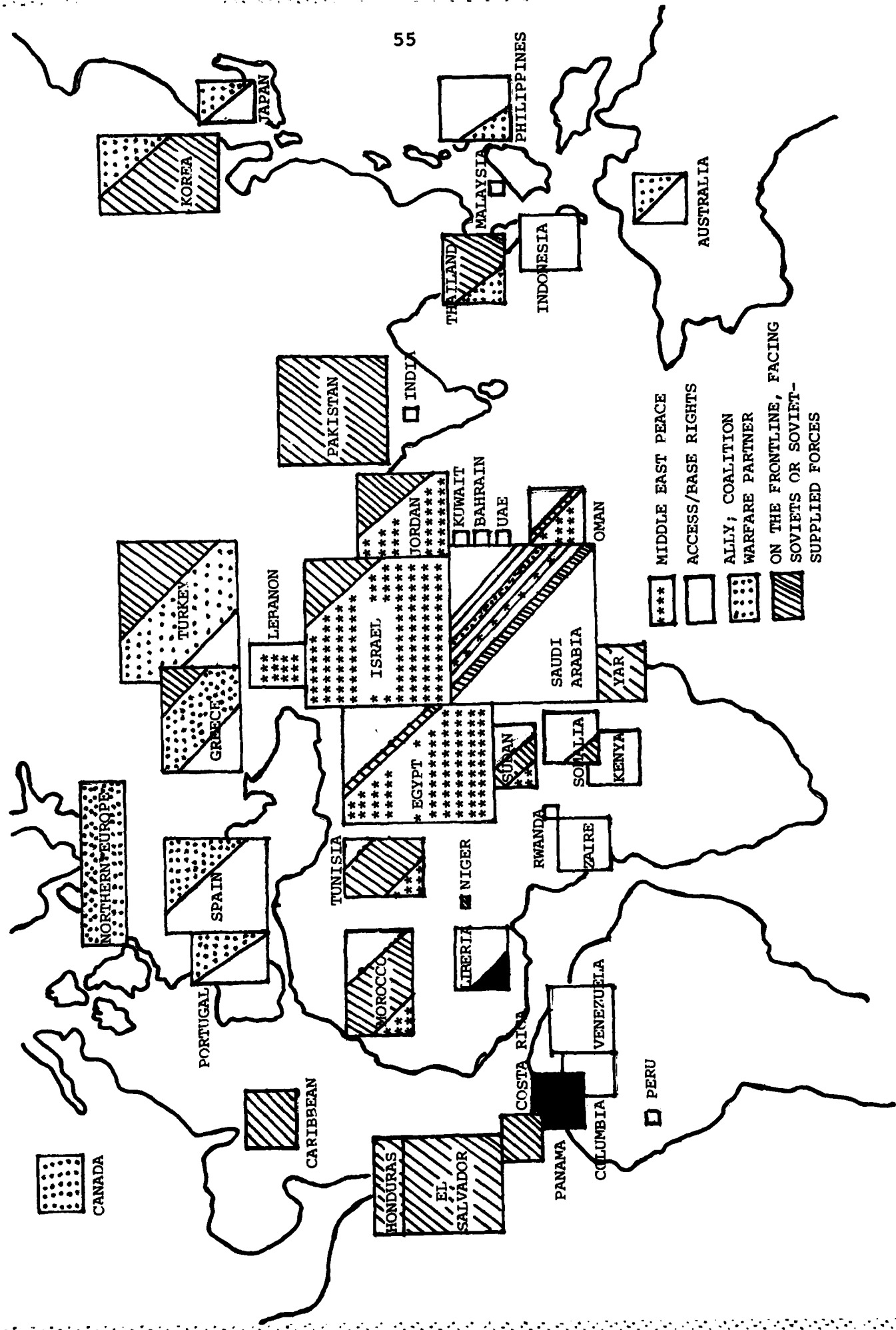
Our various programs also complement and support our own defense efforts. For example, they help us maintain foreign bases; gain and retain overflight privileges and access to overseas military facilities; are the key to successful implementation of our regional strategies via collective security arrangements; and through increased commonality between U.S., allied, and friendly forces, they enable our forces to operate more effectively with friendly foreign forces, should that ever become necessary.

The bottom line, simply put, is that whenever we improve the security capabilities of our friends and allies, we, in turn, strengthen our own security. I might add, in this regard, the observation that our security assistance program is, in essence, the overseas counterpart of our defense efforts.

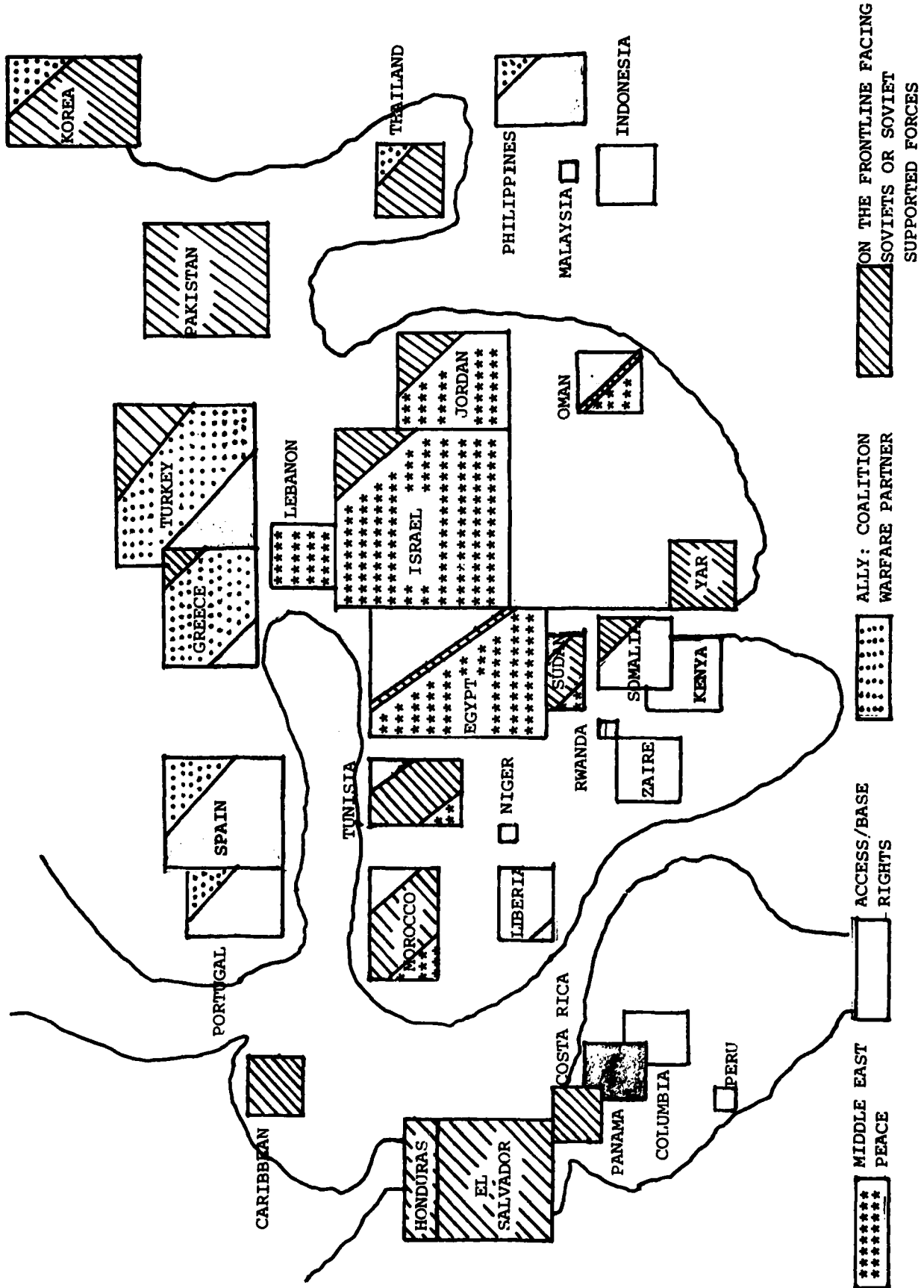
Our security assistance program and the defense articles and services we provide through them have a global strategic role. Around the world, whether our strategic objectives are to further the peace process in the Middle East, to help frontline countries such as Pakistan in South Asia or El Salvador and Honduras in Central America, to protect vital Sea Lines of Communication (SLOCs) along the Pacific rim, to strengthen our NATO allies along the Southern Mediterranean tier, or to enable sub-Saharan African nations to develop some credible defense capabilities, these programs are a central instrument of U.S. foreign and defense policy.

As you are aware, the assistance we provide and the export sales we approve have domestic benefits as well. They generate some cost saving to our armed services, create and maintain hundreds of thousands of jobs in the private sector, and provide a modest stimulant to the U.S. economy.

MAJOR SECURITY ASSISTANCE AND SALES COUNTRIES STRATEGIC RATIONALES



MAJOR SECURITY ASSISTANCE COUNTRIES
MAJOR FMS RECIPIENTS



But these objectives and benefits can be realized successfully only if the USG and US industry work closely together. We have common goals -- the promotion of U.S. interest and the protection of U.S. national security -- but how we each seek to further these goals sometimes leads to conflicting priorities which must be resolved to the mutual satisfaction of both. This is why we have guidelines and regulations. Among other objectives, you want to provide the best possible products which are easy to support and maintain, and we want to develop the best possible framework for promoting international peace.

As I mentioned earlier, the priorities of the U.S. Government may occasionally differ from those of U.S. industry. Let me mention a number of areas where these differences seem to exist.

Waivers. The Arms Export Control Act (AECA) requires that for foreign military sales of Major Defense Equipment (MDE), we must recover a proportionate share of U.S. sunk investment of non-recurring RDT&E and production costs. By DoD policy, this requirement is extended to include commercial sales and non-Major Defense Equipment (Non-MDE).

The law authorizes waivers or reductions of recoupment charges on non-recurring R&D costs and on asset use charges. This waiver provision has been misunderstood by both U.S. industry and foreign governments. The countries involved have viewed this as an entitlement program and industry has tended to view it as a way of reducing the cost of commercial sales. The policy provides for reduction or waivers as an incentive to buy, not a reward for buying U.S. products. And to be eligible for a waiver or reduction, the sale must fulfill the requirement of providing benefits to the U.S. Government through standardization as well as providing additional benefits of a political, economic, or military nature. As it now stands, we can grant only those requests which further U.S. interests in standardization with NATO, Australia, Japan, or New Zealand and which advance other priority foreign policy or national security objectives.

Co-Production. We have a comparable position on co-production arrangements with other countries. Whether with advanced countries or with developing nations, principal concerns revolve around the possible adverse effects co-production arrangements may have on the transfer of sensitive technology, on the U.S. economy, and on U.S. jobs. Therefore, in each co-production proposal, we must weigh carefully the advantages and disadvantages to the U.S. and U.S. industry -- and to friendly foreign governments. In almost every case, the actual cost to the other country of co-producing an item is higher than the costs involved in a straight FMS or commercial buy.

Offsets. In the area of offsets, we continue to believe that, within limits, the specifics in the agreements between a

foreign government and a U.S. firm should be worked out by the parties themselves. Needless to say, the U.S. Government is not a disinterested party to offsets, but we do not provide guarantees to the parties.

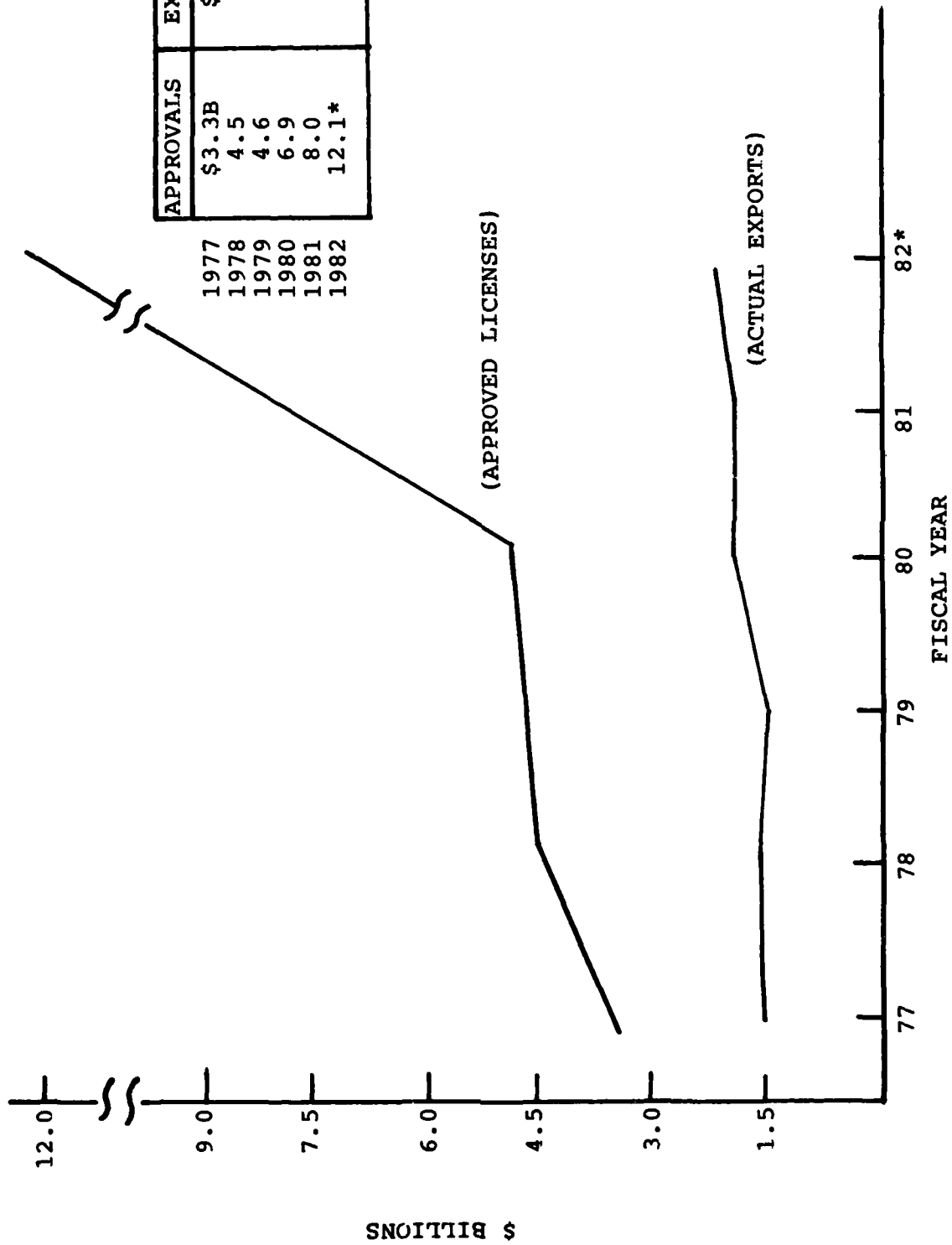
"Off-Shore" Use of Credits. These concerns have also led us to take a very restrictive view on foreign requests for the use of FMS credits "off-shore," i.e., use of credits outside the United States. Since the foreign military sales credit program was begun in the mid-1950s, we have authorized the use of U.S. credits in other countries in only a very limited number of cases. The law states that FMS recipients use their credits for procurement in the U.S. This is sound requirement and there does not appear to be any rationale for changing it.

Technology Transfers. We must tighten our controls over the transfer of technology, especially to the Communist Bloc, but this is a requirement that has wider applicability as well. This is a ticklish issue. On the one hand, we want to foster the sale of arms and technologies to our friends in order to improve their ability to defend themselves and this is certainly evident in the increased value of commercial licenses. But on the other hand, we need to reduce the flow of advanced technology to the Soviets and other Communist nations through better control of both munitions and dual-use licensing. Our task is to tighten controls so as to preserve our technological advantage, the key to our military strength, and still maintain the legitimate exports of commercially available arms.

Finally, let me put to rest the belief that FMS and commercial military export sales are in competition. This, in reality, is not the case. We do not compete with or seek advantage over commercial sales but respond to formal requests from foreign governments expressing an interest in government-to-government procurements. In those cases where little training or follow-on support is required, it may be preferable to encourage commercial export channels. Faster deliveries, less bureaucratic "red tape," and more bargaining flexibility are just some of the advantages a purchasing country may derive from procurements through commercial export channels.

Recent trends in both FMS sales agreements and commercial licenses indicate an interesting relationship which I'd like to touch on for a moment. In 1981, the value of commercial military exports exceeded the \$2 billion dollar level for the first time and these trends are likely to continue upward. The value of commercial licenses has gone up, too. This is, in part, traceable to the successive raising of the dollar ceiling for commercial sales. The 1981 amendment to the Arms Export Control Act, which removed the dollar cap on commercial sales, has boosted this trend. As a result of this loosening up, the value of authorized

COMMERCIAL SALES AND EXPORTS
(\$ BILLIONS)



	APPROVALS	EXPORTS
1977	\$3.3B	\$1.5B
1978	4.5	1.7
1979	4.6	1.5
1980	6.9	1.9
1981	8.0	2.0
1982	12.1*	2.3*

*ESTIMATES

commercial licenses jumped from about \$8 billion in 1981 to around \$12 billion in 1982. The value of actual commercial exports are now just over \$2 billion.

The value of FMS agreements in FY 1982 also climbed to an all-time current dollar value of \$21.5 billion. As with many statistics, this one is misleading. The FY 82 sales figure follows a very low dollar total in FY 1982, \$8.2 billion -- and in constant dollar terms is actually less than the value of our FMS agreements in FY 1975, for example. However, more dollars don't necessarily buy more equipment or services. In the past, we sold a larger number of aircraft and other major systems for a smaller dollar value.

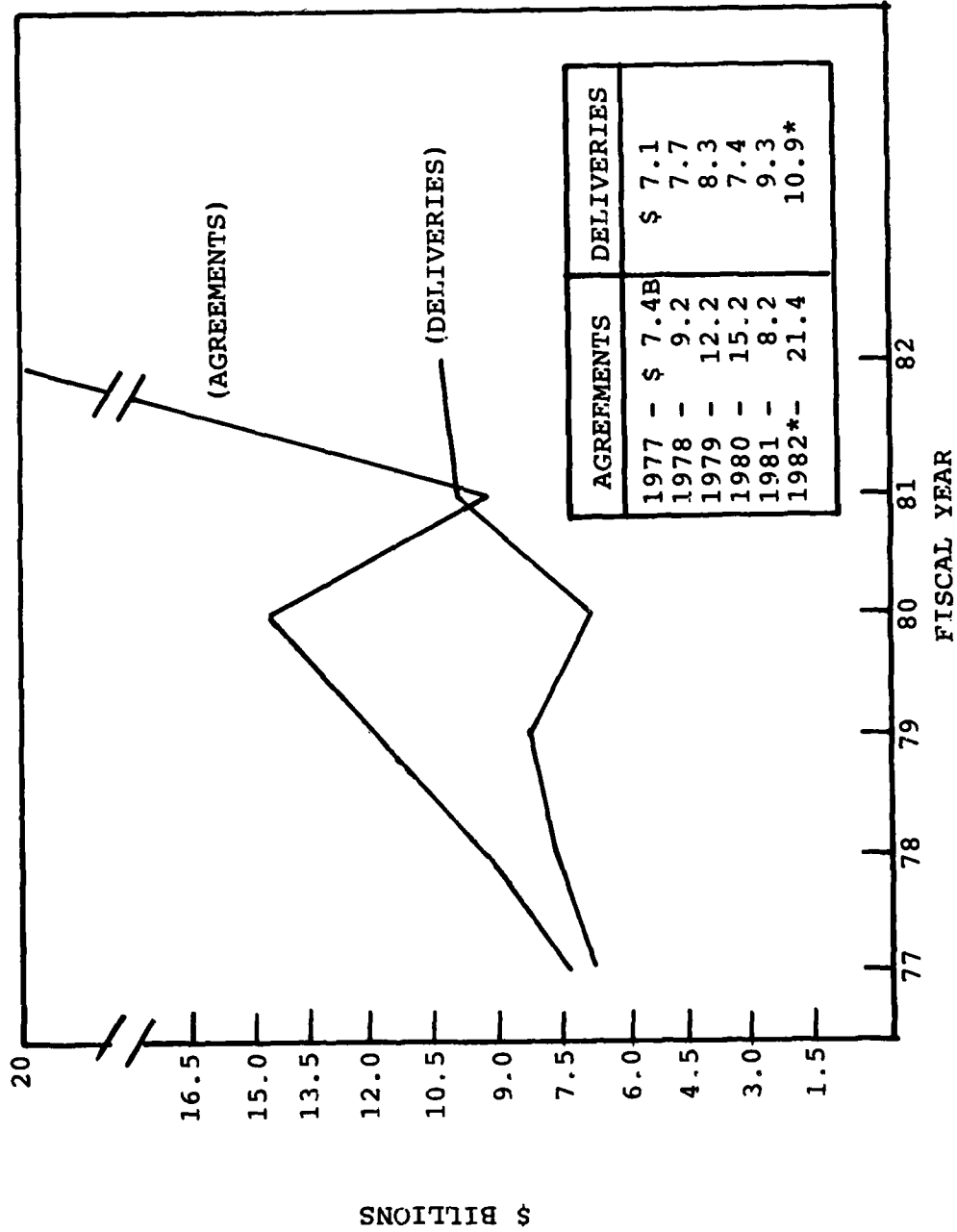
Even with orders placed for \$21.5 billion, the United States did not replace the Soviet Union as the world's leading arms supplier. Over the past decade, the Soviets have supplied Third World nations about 74,000 major weapons systems, which is about double the number of major systems supplied by the United States. On the other hand, our security assistance program, with the full package concept and a more fully developed approach to promoting greater national self-sufficiency, is qualitatively superior to the Soviet system. A major reason for this judgement has been the ability of our private sector to work successfully and dynamically with the U.S. Government in this international sales area.

Although I strongly believe our system of providing military assistance to governments is a sound one, there are several areas where improvements are needed. One of these involves the need for more rational procurement planning. Better procurement planning, for the U.S. Armed Services and for foreign sales, must be improved in order to avoid untimely diversions which can disrupt force planning levels and adversely affect U.S. forces readiness. Although there have been very few instances where we have diverted major items from U.S. force inventories, each instance was so critical that our failure to divert these items may well have been harmful to the U.S. interests. The emergency drawdown during the Yom Kippur War is a case in point.

Better planning is needed so that our responsiveness to unforeseen foreign emergencies is improved. It is also needed to help moderate the effects of lengthy lead times on items already on contract. We need to do a much better job in this regard, not only for foreign procurement but also for U.S. armed forces procurement as well.

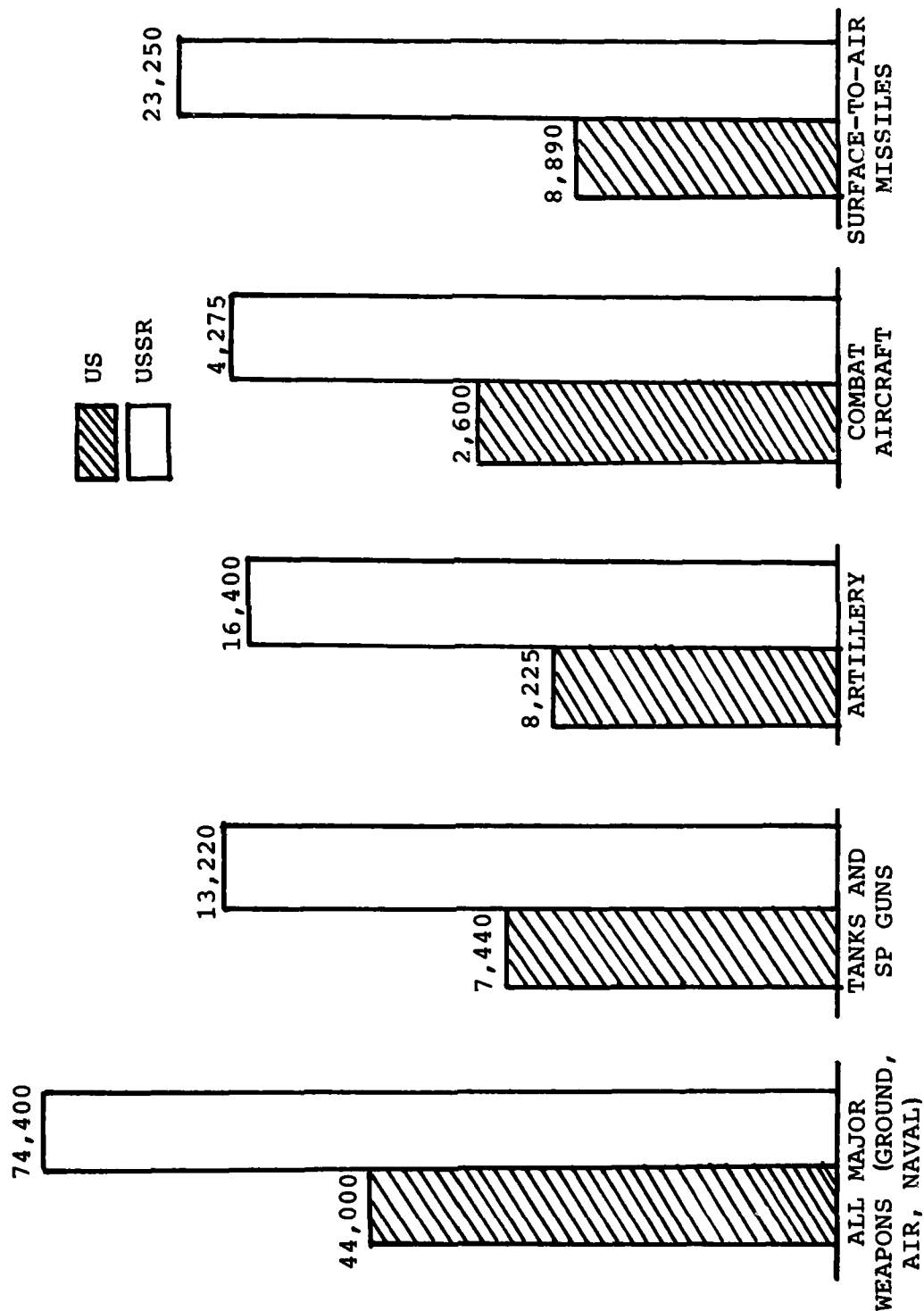
There are several mechanisms now in place which help us do better planning with foreign governments. Combined military planning and consultation between the U.S. and foreign armed forces in the form of Joint Military Commissions with Jordan, Morocco, Korea, and Egypt exemplify one approach. These periodic meetings are useful fora for exchanging information, anticipating future requirements, and for matching country needs to our funding requests to the Congress. We need to build upon these regular

FMS SALES AND DELIVERIES (\$ BILLIONS)



* ESTIMATED

SOVIETS AND US ARMS DELIVERIES
TO THE THIRD WORLD
(1972-1981)



exchanges to better anticipate foreign demands on a multi-year basis and to improve the information base upon which foreign sales can be made. I know this is not an easy task to accomplish. It is difficult and demanding for the U.S. to develop multi-year plan and we have considerably more experience at it than most FMS customers. But the advantages of longer-run procurement planning cycles are considerable -- better responsiveness, better prices, smoother production runs, and a more rational mobilization base. In the FMS system, the role of our overseas security assistance organizations and the personnel assigned to them are most critical elements to improved planning. They are not abroad to promote sales, but one of their essential roles is to make sales possible once their host governments have expressed an interest.

The Special Defense Acquisition Fund (SDAF) is a particularly important instrument for planning, producing, and procuring defense articles and services in advance of actual foreign orders. The SDAF is being used to procure high demand items which are in short supply but which we believe will be needed for foreign sales in future contingencies. The Congress has authorized a cumulative \$900 million capitalization through FY 1984, but has only given us \$250 million in obligational authority so far (\$125 million each in FY 82 and FY 83). These funds have been used to place on contract a complete M603A tank package of 54 tanks with ammo, and I-TOW missiles; TV MAVERICK missiles and 2TPS-70 radar packages. The FY 83 procurement plan will be used primarily for acquiring items we were not able to put on contract in FY 82 because of limited funds. The items put on contract in FY 82 won't be available for foreign sale for at least one year.

We have requested \$325 million in obligational authority for FY 84. The sooner we're able to put out contracts on selected items, the sooner these items will be available for foreign sale. Greater obligational authority is absolutely essential if we are to reduce the long lead times, be responsive to the urgent needs of our friends, and to minimize the adverse effects of possible sudden drawdowns on U.S. force readiness. These funds, as you know, are not appropriated funds, but come from past FMS sales.

I'd like to shift now to talk briefly about our funding requests to the Congress. One of the goals of the Reagan Administration when it came into office over two years ago was to reverse the steady erosion of security assistance funding that had characterized the program at that time. Grant program levels had declined by the early 1980s to a fraction of where they were in the early 1950s, military trainees had dropped far below levels in the mid- to early-70s, and, in constant dollar terms, overall military assistance financing levels were about one-fifth the level of 1952.

The program approved by the Congress in FY 82 -- the first full year of President Reagan's program -- established an

SDAF

SPECIAL DEFENSE ACQUISITION FUND

- \$125 MILLION IN FY 82
- \$125 MILLION IN FY 83
- \$325 MILLION BANKED
- \$900 MILLION AUTHORIZED
- TANKS, MISSILES, RADIOS

excellent base from which we are able to continue ongoing programs and undertake several high priority initiatives.

Last year, the Congress earmarked funds for specific countries where we have base rights or access agreements. These include Egypt, Spain, Portugal, Greece, Turkey, and Morocco. But the Continuing Resolution Authority (CRA) for FY 83 left us about 40 percent under-funded for other countries where we also have important security interests.

Consequently, we have submitted an FY 83 supplemental request totalling more than \$900 million (including ESF) to cover the shortfalls in the '83 CRA. Without this funding, we face potential serious foreign policy problems. For one thing, a start and stop approach to funding makes it extremely difficult for recipient countries to plan wisely and to make the most efficient use of the resources we provide -- and those they provide themselves. Some countries will have difficulty in meeting their payment schedules or to begin new buys and other nations, such as Pakistan and Tunisia, would be seriously affected.

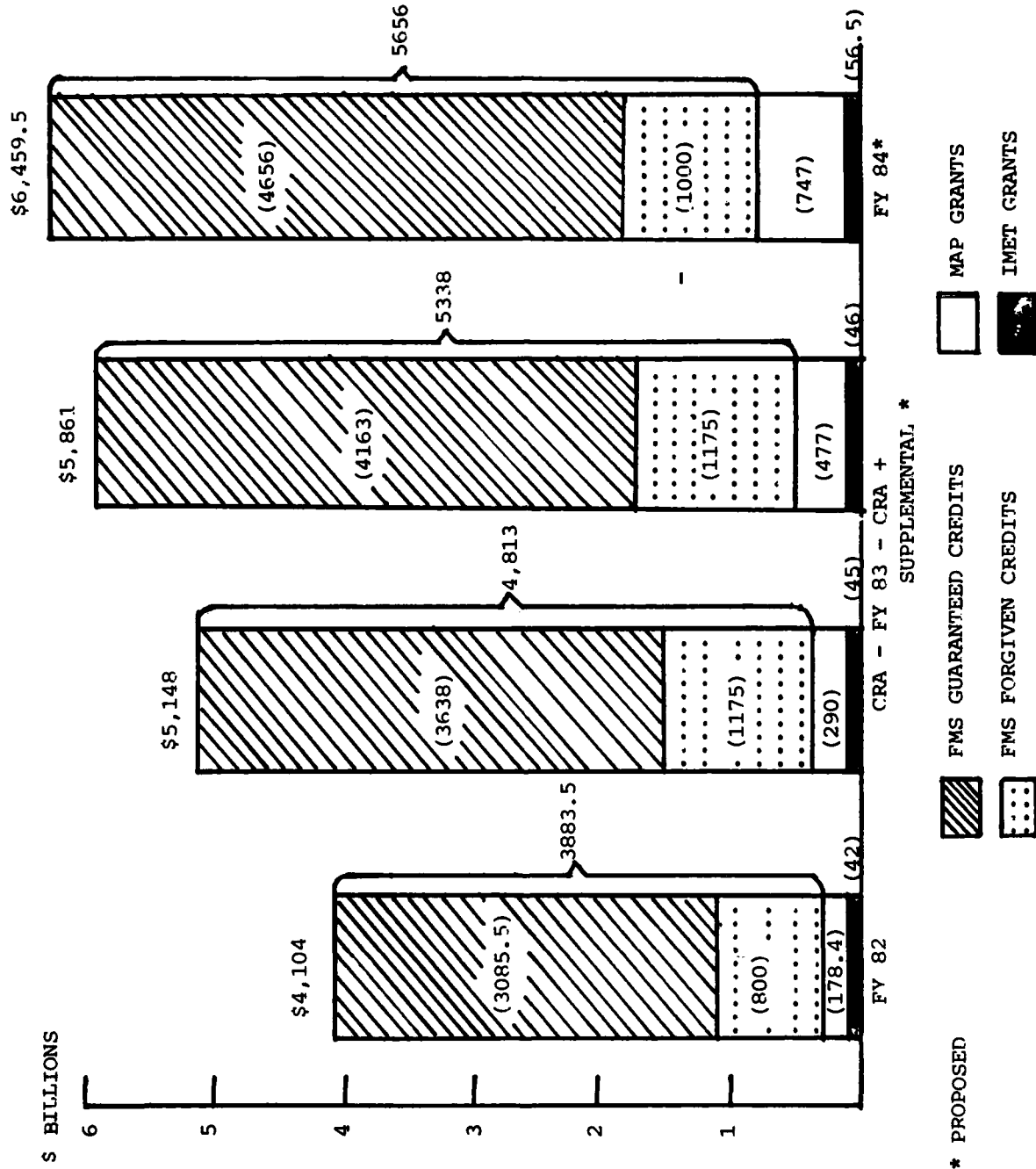
We have also submitted a special supplemental for Lebanon. No one could have anticipated the crisis or the need for emergency funds for that beleaguered nation. This request includes \$251 million in both military and economic support funds and would help equip two new brigades, assist the armed forces to restore authority of the Government, and help reconstruct Lebanese economic and political infrastructure so that the leadership can re-establish its sovereignty and independence.

Our FY 84 security assistance request, submitted with both the FY 83 and Special Lebanon Supplementals, includes only one major increase over the President's FY 83 request. This is to support Turkey's military modernization plan which seeks to bring its armed forces up to NATO force goals. The remainder seeks to continue funding levels with no other dramatic increases. Overall, the FY 84 increase for military assistance is modest -- about a 5 percent increase over the FY 83 request but constant in dollar value -- from \$5.2 billion under the current CRA (or \$5.8 billion with the Supplemental amounts) to about \$6.2 billion for FY 84.

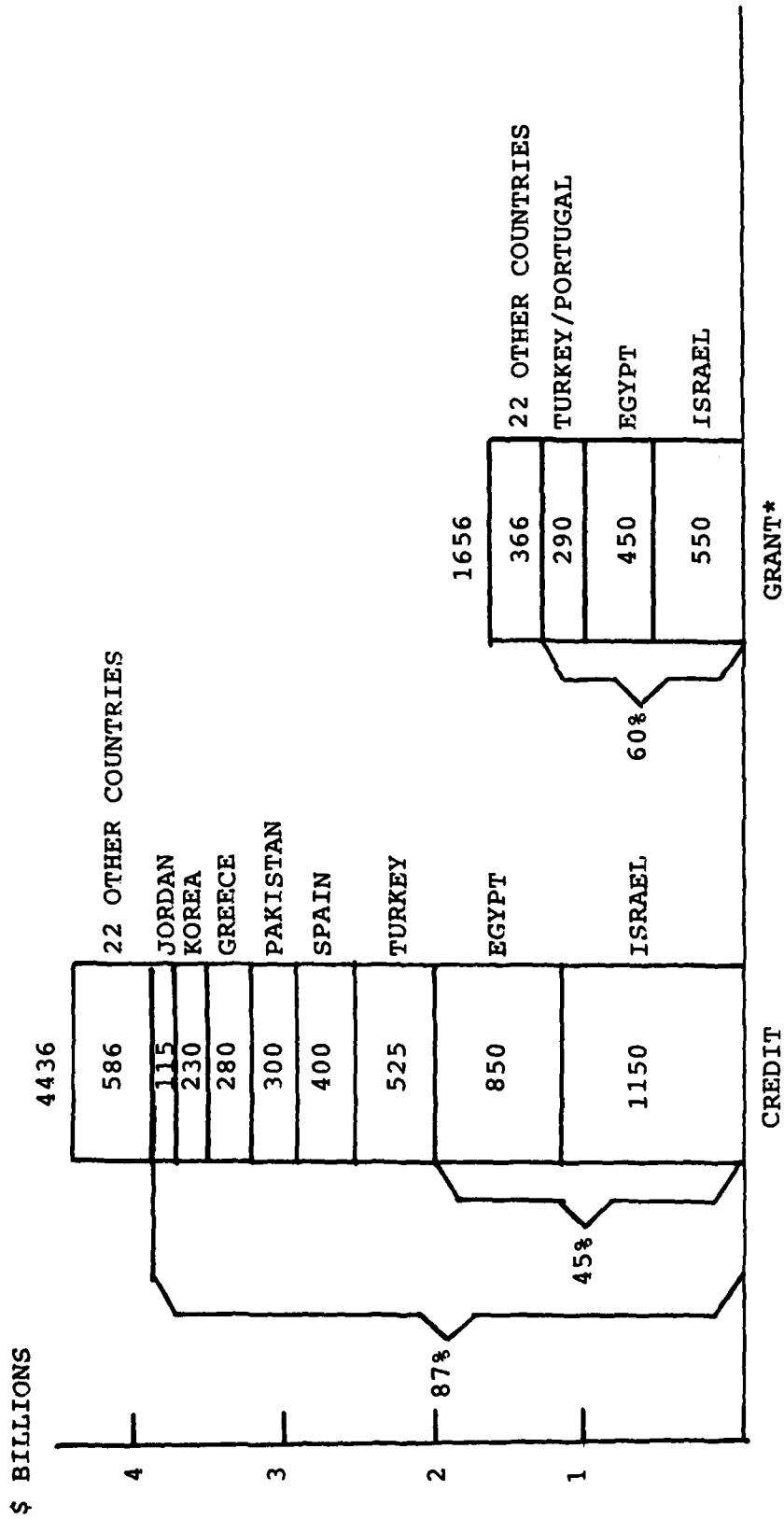
About half (45 percent) of all FMS credits requested for FY 84 would go to Egypt and Israel and the same two countries would receive about 60 of all grants being proposed. Nearly 90 percent of all credits would go to the eight countries listed on the left side of the chart on FY 84 military assistance.

Military assistance in FY 84 continues to be less than half the total foreign aid request. Over the past few years, the military portion has been increasing, but aggregate economic levels have increased also. In appropriated funds (budget authority), military assistance represents only about 18 percent of the

MILITARY ASSISTANCE FY 82 - FY 84
(\$ MILLIONS)



FY 84 MILITARY ASSISTANCE
(\$ MILLIONS)



* DOES NOT INCLUDE MAP GEN COSTS AND 506 (a) DRAWDOWN REIMBURSEMENT

Administration's FY 84 request; it totals about 43 percent of the total funds which must be authorized (program). The mix reflects the need to provide both economic and military aid to foreign governments and our efforts to provide a balanced approach to tailor our assistance to known requirements.

I'd like to just briefly mention a few prevalent misperceptions or "myths" about security assistance. One of the things I've learned over the past year is that those deeply involved in the security assistance program are continuously hamstrung by outmoded or misleading perceptions about the program -- how it is formulated, how it is managed, what goals it serves, how much it costs, and what consequences it has on the U.S. Government and on recipient countries. These are important questions, so let me briefly single out a few items on the chart of myths and realities.

Perhaps the most persuasive and most pernicious "myth" is the belief that security assistance is a "give-away" to other countries with little return to the U.S. This perception seems to have intensified as the economy worsened. In reality:

- Most credits of "off-budget," i.e., are not appropriated by the Congress;
- Almost all FMS credits are spent in the U.S.;
- Most credits are hard and carry high repayment terms -- current market interest rates and usually 7-8 years to repay the credit loans;
- Unlike the 1950s, the grant component is a small portion of our military assistance today -- but it needs to be increased. The bulk of these grants goes to Israel and Egypt;
- As I mentioned earlier, the program does create jobs and provides a modest stimulant to the U.S. economy.
- Most sales are cash transactions (75 to 80 percent).

Some people also believe arms sales are "out of control." They see a less restrictive arms transfer policy and see their beliefs confirmed in the high sales level for FY 82 (\$21.5 billion). In reality:

- Most sales have been with industrialized countries in Europe and the Far East and with wealthy LDCs;
- The high 82 levels are, in part, traceable to major sales cases that slipped from FY 81 to FY 82, e.g., the Australian F-18 and the Saudi Air Defense;

POPULAR PERCEPTIONS:
MYTHS AND REALITIES

A GIVE-AWAY PROGRAM

ARMS SALES ARE OUT OF CONTROL

MOST SALES GO TO POOR COUNTRIES

SALES STIMULATE REGIONAL ARMS RACES

AID BOLSTERS REPRESSIVE REGIMES

ASSISTANCE AUTOMATICALLY BUYS INFLUENCE

SALES MOTIVATED BY US ECONOMIC NEEDS

PENTAGON PUSHING ARMS EXPORTS

SECURITY ASSISTANCE RAIDS THE MILITARY SERVICES

- All foreign requests are reviewed on a case-by-case basis and we do not promote or push sales abroad;
- The 82 dollar level is actually less than the FY 75 level, when measured in constant dollar terms, and it follows a low '81 total (\$8.2 billion);
- The Congress, moreover, reviewed requests totalling more than 90 percent of the FY 82 sales agreements.

To mention one more misperception -- the last one listed on the chart -- there is also a belief that security assistance to foreign governments is a "raid on the Services." In reality:

- Equipment drawdowns, with rare exceptions, have not cut deeply into service inventories. The Middle East War in 1973 is one possible exception.
- The Services and CINCs, in fact, gain foreign bases, access to facilities, overflight privileges, and a strengthened forward defense capability.
- The SDAF is designed to cope with this problem.

In each of these areas of misperceptions, we have to do a better job of informing and educating the public (and ourselves). The quality of our program will depend, in part, on how successful we are in this effort.

I'd like to conclude now simply by re-stating that security assistance is an extremely cost-effective investment in our own national security. Although it can never substitute for a strong and vigilant U.S. Armed Forces, it is without question an important complement to our global defense efforts. Without security assistance and without adequate funding in 1983 and 1984, we may be deprived of critical forward defense assets which would cost us more if we should need them in the future.

Finally, let me add that our security assistance program has suffered from past misunderstanding and neglect. Only if government and industry work together can we hope to correct that situation. And it is crucial that we do remedy it because we need the help of other countries to share the burden of defending the Free World.

Thank you very much.

Colonel Gary Hagen

Good afternoon, ladies and gentlemen. It is a pleasure to be with you today. I would like to take the next several minutes to focus on some current issues in USAF security assistance management to give you an idea of things we are concerned with and a couple of initiatives that the Air Force has implemented to provide more responsive security assistance management.

Security assistance -- that is, the transfer of conventional arms and defense articles and services -- is, as this administration has stated, an indispensable component of this nation's foreign policy with the fundamental purpose of supporting U.S. objectives and interests. Assisting other nations contributes also to our national security.

While the security assistance program as a whole, and the foreign military sales (FMS) program in particular, are designed to meet the objectives of the security of the United States, it is extremely important that we work to dispel the often-heard notion that security assistance is a "giveaway program." This simply isn't true.

There are substantial economic and military benefits that accrue as a direct result of FMS. We need to be aware of the many positive aspects in order to balance some of the one-sided arguments against arms transfers.

- FMS generates tens of thousands of jobs and billions of dollars in salaries and wages.
- The U.S. Treasury receives sizable sums in corporate and individual income taxes.
- The cost of military equipment for U.S. forces is often reduced.
- A wider production base and a stimulus for keeping the production lines open are provided.
- R&D costs for all customers, including the USAF, are reduced.
- A stabilizing effect in terms of defense and international trade alignments is realized.
- Some USAF programs, such as the F-16, are actually made possible by FMS participation.
- Most important of all, our programs are all instituted to further security needs.

PRESENT POLICY

- "THE UNITED STATES VIEWS THE TRANSFER OF CONVENTIONAL ARMS AND DEFENSE ARTICLES AND SERVICES AS AN ESSENTIAL ELEMENT OF ITS GLOBAL DEFENSE POSTURE AND AN INDISPENSABLE COMPONENT OF ITS FOREIGN POLICY."

PRESIDENT REAGAN

- SECURITY ASSISTANCE IS AN ESSENTIAL COMPLEMENT TO THE OVERALL U.S. DEFENSE EFFORT
 - CAREFULLY TUNED TO U.S. GLOBAL AND REGIONAL STRATEGY OBJECTIVES
 - ASSISTING OTHER NATIONS CONTRIBUTES TO OUR SECURITY
- SECRETARY OF DEFENSE WEINBERGER**

SECURITY ASSISTANCE IS NOT A GIVEAWAY

- ECONOMIC BENEFITS INCLUDE:
 - ECONOMIES OF SCALE
 - PRODUCTION LINE SMOOTHING
 - EXPANSION OF THE DEFENSE INDUSTRIAL MOBILIZATION BASE
 - EXPANDED PIPELINE AVAILABILITY
 - LARGE PORTION OF FUNDS ARE SPENT IN THE U.S.

The Secretary of State, under the direction of the President, is responsible for the continuous supervision and general direction of the security assistance program. Once a program is approved, we in the implementing agencies strive to ensure the success of a sale through total program management.

The Directorate of International Programs (AF/PRI) serves as the Air Staff focal point for security assistance to ensure responsiveness to the Defense Security Assistance Agency (DSAA) requirements while the offices of the Secretary of the Air Force and the Chief of Staff provide guidance and direction to the Air Staff on security assistance matters which impact or relate to the overall Air Force mission.

The responsibilities of the Directorate cover all aspects of Air Force security assistance, not only sales and training, but involvement in cooperative research and development, coproduction and coassembly, and other forms of industrial cooperation.

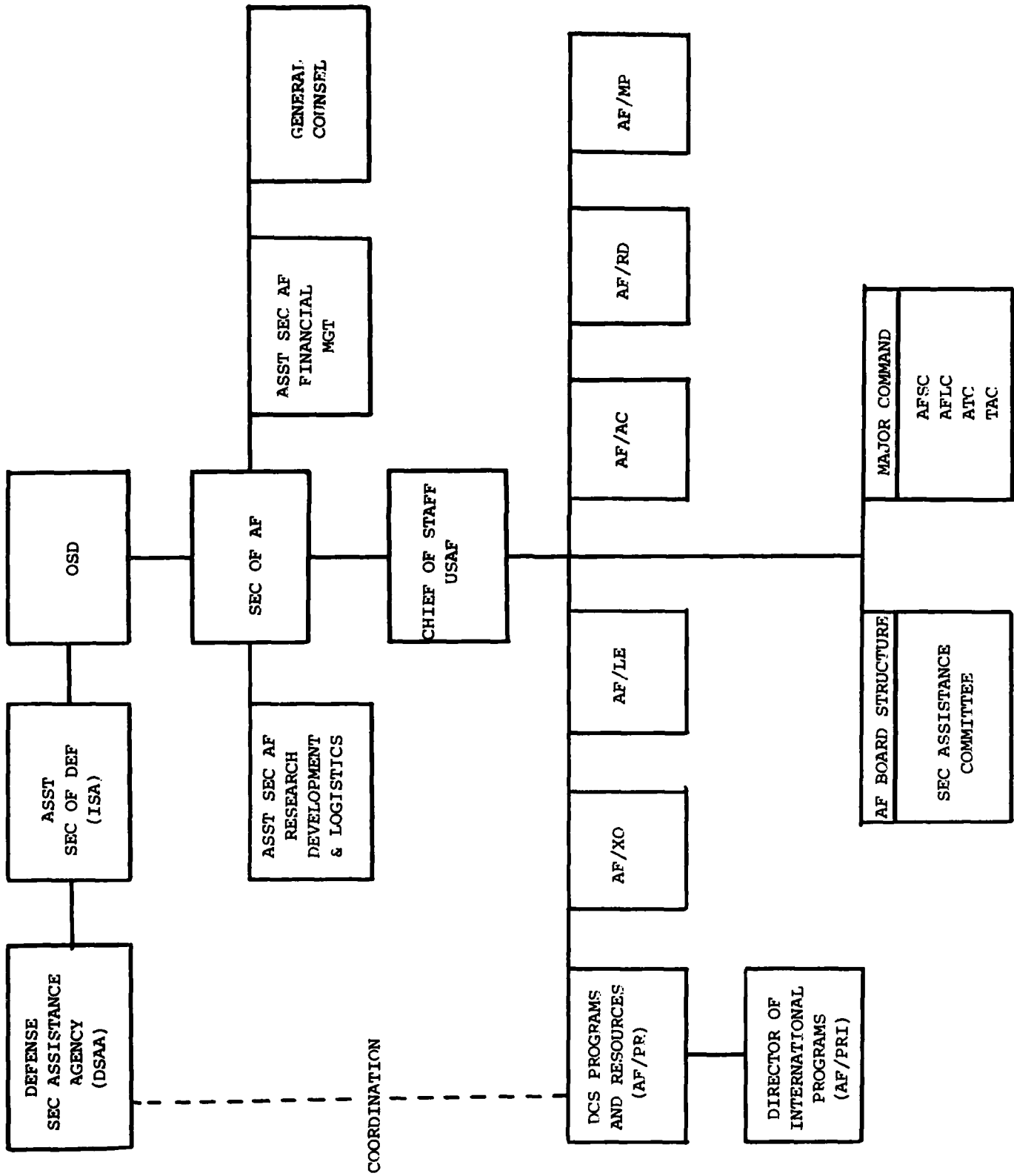
We are structured along both geographic and functional lines, a pattern repeated throughout State, DSAA, and other security assistance organizations.

In recent years, our customers have requested the latest equipment we have, from first-line aircraft such as the F-15 and F-16 with associated modern air-to-air missiles and munitions to the most advanced command and control systems. This has changed the magnitude of security assistance programs and has produced a set of problems and challenges that have required innovative management and a broadening perspective of the international environment. Carefully thought-out decisions have to be made regarding the allocation of scarce resources and the impact these allocations have on USAF forces.

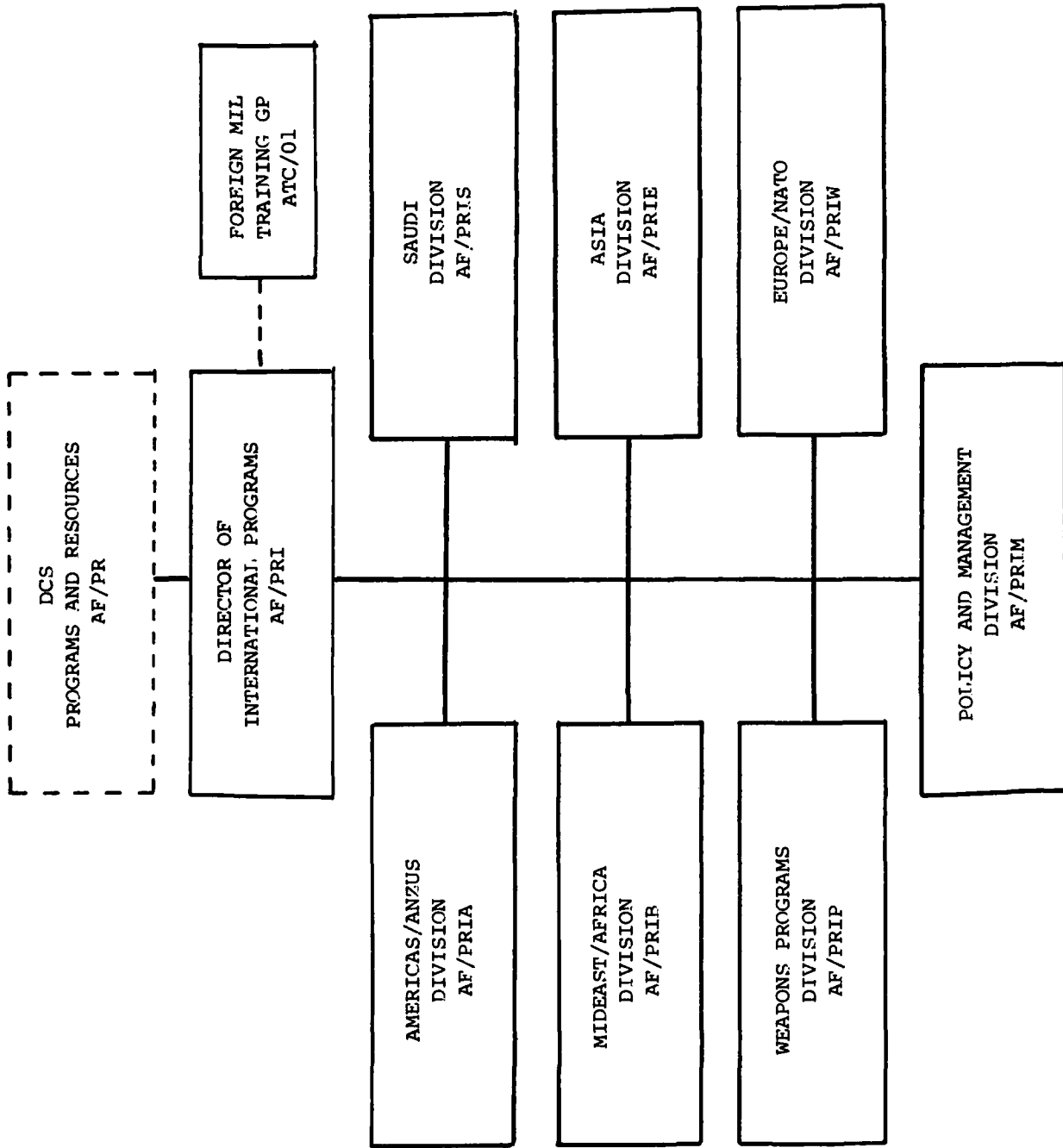
FMS is big business. To illustrate the magnitude of the USAF effort and its ongoing nature, the following examples are pertinent.

- In FY 81, there were 1045 new USAF FMS cases at a value of \$3.4 billion while FY 82 saw 1060 new cases valued at \$10.9 billion.
- At the end of FY 82, there were 3,985 active USAF FMS cases valued at \$46.1 billion. Of that total, \$26.4 billion worth of articles and services were yet to be delivered.
- Air Force Logistics Command provides support through FMS for more U.S. built, foreign owned aircraft than there are in the USAF inventory. It is important to remember that many of these aircraft are obsolete and are not in the current USAF inventory and present problems in the area of FMS non-standard support.

In recent years, two related issues have become increasingly important in the conduct of FMS and received considerable Air Force attention. These issues are the package sales concept and contractor interim support.



ORGANIZATION OF
DIRECTORATE OF INTERNATIONAL PROGRAMS



SCOPE

- AIRCRAFT
 - F/RF-4
 - F-5
 - F-15
 - F-16
 - C-130
 - A-10
- MUNITIONS
 - AIM-7 SPARROW
 - AIM-9 SIDEWINDER
 - AGM-65 MAVERICK
 - LASER GUIDED BOMB
 - GPU-5A
- COMMUNICATIONS, COMMAND & CONTROL
 - AWACS E-3A
 - GROUND RADAR SYSTEMS
 - AIR DEFENSE TPS-43
 - COMMUNICATIONS NETS
- LOGISTICS SUPPORT & TRAINING
 - INITIAL
 - FOLLOW ON

WORLDWIDE AIR FORCE SECURITY ASSISTANCE ACTIVITY

- **COUNTRIES AND INTERNATIONAL ORGANIZATIONS
PARTICIPATING IN FMS**
 - 60 CUSTOMERS IN FY 80
 - 64 CUSTOMERS IN FY 81
 - 65 CUSTOMERS IN FY 82
- **FMS CASE ACTIVITY**
 - 1046 FY 80 CASES VALUED AT \$4.5 BILLION
 - 1045 FY 81 CASES VALUED AT \$3.4 BILLION
 - 1060 FY 82 CASES VALUED AT \$10.9 BILLION
- **3,985 ACTIVE FMS CASES ON BOOKS VALUED AT \$46.1
BILLION WITH UNDELIVERED VALUE OF \$26.4 BILLION**

PACKAGE SALES CONCEPT

- SPARE PARTS
- SUPPORT EQUIPMENT
- TECHNICAL ASSISTANCE
- LOGISTIC SUPPORT
- TRAINING

A main ingredient that makes USAF sales attractive to our customers is our capability to support what we sell. It is important to remember that a request for a weapons system is normally only the initial step of a program. Sales of spares, support equipment, munitions and required services comprise a large percentage of our total sales commitment. What this means is a package sales concept -- taking everything necessary into consideration for properly phased delivery of the system, training and support. Key to this concept is a complete site survey -- conducted preferably right after Congressional notification is made. This provides knowledge of existing facilities and equipment and identification of requirements for runways, maintenance shops and hangar improvements, additional ground support equipment, fire and fuel trucks, and planned system utilization rates to calculate training needs for operator and maintenance personnel, as well as spares -- both initial and follow-on.

Often a customer submits a letter of request for an aircraft system without adequate knowledge of the munitions training and logistics support necessary. By using a package sales concept, the customer and we -- upon acceptance and implementation of the case -- have laid the foundation for effective operation, logistics support and employment of that system, which is key to a successful security assistance relationship.

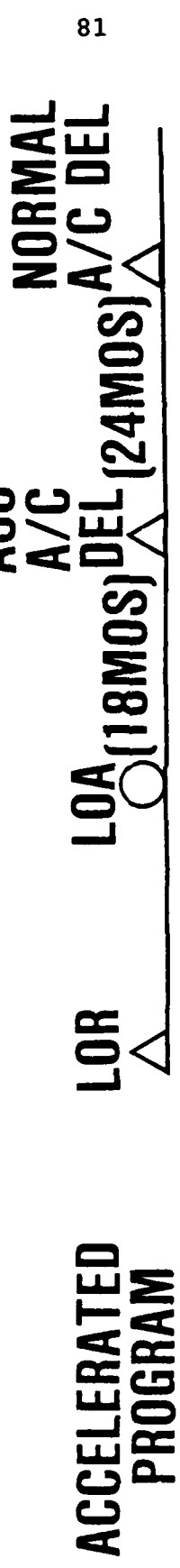
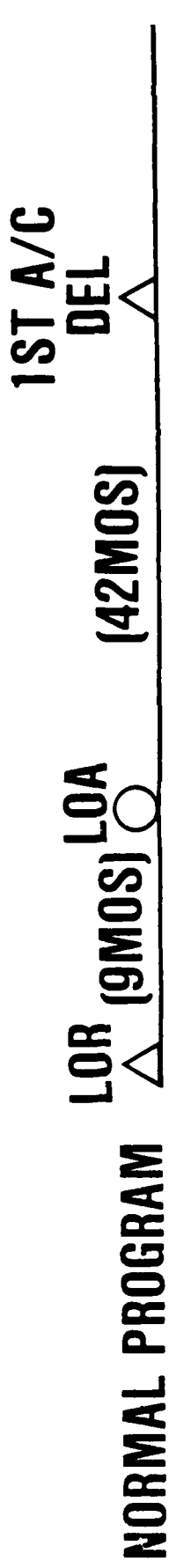
A related issue, and a logistics support concept that the Air Force has implemented in highly sensitive cases where the country has requested extraordinarily accelerated delivery, is the use of contractor interim support.

Normally, aircraft delivery is quoted as 42 months. This represents delivery of first aircraft and availability in-country of trained customer nation personnel, as well as necessary spares and support equipment to operate and maintain the system. The long lead driver in the delivery schedule is frequently the support items or the spare parts rather than the aircraft itself. In this illustration, the customer desires early delivery of six aircraft, eighteen months after acceptance of the LOA. This leaves a space of 24 months between the early delivery of 6 aircraft and the time when normal aircraft delivery begins and initial Air Force logistics support is available to sustain operation. It is during this span of time that contractor interim support is necessary to sustain operation of the first 6 aircraft.

In order for everything to work properly, several key activities must occur coincident with the receipt of the customer letter of request -- some 9 months before the customer signature on a letter of acceptance.

Contingent upon a high probability of (1) country acceptance of the program, (2) negligible or no adverse impact to the U.S. Forces readiness, and (3) necessary diplomatic, Defense, and Congressional approval of the program, the contractor must put "at risk" his money to finance and initiate long lead procurement of articles needed during the 24-month interim period when his personnel will be responsible in-country for operational support and

CONTRACTOR INTERIM SUPPORT (CIS)



81



CONTRACTOR RISK (L/L)



CIS HARDWARE



TEAM DEPLOYMENT



necessary technical training. Materiel for normal program support is being delivered during the CIS period for organic use when remaining normal aircraft deliveries begin and contractor interim support terminates.

Secondly, the USAF must certify in its notification to Congress of the proposed sale that there is not adverse impact on USAF readiness by the early supply of aircraft, spare parts, or support equipment.

This procedure is more costly to the country. However, it is a financial burden that must be assumed to obtain such accelerated delivery.

And finally, this is an exceptional procedure, not the normal mode of business.

Today, the USAF works in a unique environment involving the sale of defense articles and services. It is unique in that we do not solicit the sales, yet we are thoroughly involved and deeply committed. It is unique because we do not sell to meet foreign competition, but to serve U.S. foreign policy and national security interests. We are motivated fundamentally by our commitment to assist friendly foreign countries in establishing and maintaining adequate defense postures. And, we are also influenced and tempered by the impact these arms sales may have on social and economic development within the customer country. We are also concerned about the impact of the FMS programs upon the United States and carefully review sales requests to control release of our technology, to assure we can support the programs, and to arrange for procurement and delivery in a manner which permits integration with programs for U. S. forces.

Thank you.

SESSION IV
TECHNOLOGY TRANSFER POLICY

Mr. Shillito

Good morning, and happy St. Patrick's Day. After reading the newspaper in New York earlier this week, I'm going to be fascinated as far as seeing how the St. Patrick's parade works out up there. It may be a typical Northern Ireland conflict.

I'm fascinated, too, by the fact that unlike yesterday, we already have questions submitted, and I gather that some of you may not have had your questions answered yesterday, so you made sure to get some of them up here a little bit early for our panelists this morning.

As you can see from the agenda, the Session IV and V, similar to the sessions yesterday, will deal first with policy and then procedure. Our Session Chairman for both IV and V is the Deputy Director, Bureau of Politico-Military Affairs, Department of State. Most of us have known Les Brown over the years and have come to recognize him as an expert in his field. Indeed he is. He's a career foreign service officer. Unlike so many of our folks in government, he's been in his particular field for sufficient time to have watched the shifting changes that have taken place and at the same time, has been aware of some of our foreign policy consistencies that are a part of that which we are going to be discussing. He's an author, he's a recognized internationalist, and indeed, an expert on international military affairs. Les, we're delighted to have you as our panel leader.

Mr. Leslie H. Brown

Good morning, all. I have appeared in this sort of panel many times before. This will probably be my last one for ADPA since I'm planning to leave this summer, but the subject that we have before us is one that certainly will not be solved by this summer, on my watch. It's probably one of the most controversial issues that besets the arms transfer export activities now of the United States Government. This Administration has taken a new and I think overdue look at the whole question of technology transfer, technology leakage, both in terms of the security aspects of it -- leakage to the Soviet Union and its allies and from the point of view of competitive advantage. I have found it a difficult subject to deal with because there are varying views as to what technology really is, whether in fact you can control it, whether the kinds of restrictions and export regulations that you might put on it can be effective without utterly destroying your export activities or perhaps even more important, destroying

Alliance relationships that have been built up over a long period of time. We have had several rather disagreeable arguments, if that's the word, with some of our best friends in Europe over issues that ultimately boil down to the question of technology transfer, primarily in the aerospace business.

So I think we have the potential for a fairly lively session this morning, provided only that our other panelist turns up. Steve Bryen is perhaps stuck on the 14th Street Bridge somewhere, but as you know, Steve is Dick Perle's Deputy in the Defense Department in ISP whose major responsibility is to deal with the Defense policy on technology transfer. He's quite an activist in the field and has clearly got a very large bear by the tail. We expect to see him shortly.

The other panelist, Denis Lamb, represents the State Department side of the same problem, or at least that part of the problem that deals with non-munitions lists sorts of problems. That is, the technology transfer elements that are handled primarily by the Commerce Department. That, I might add, is at least as controversial and difficult to deal with as anything in the arms transfer business, again because there are definitional problems, because the controls are rather different, and because there are passionately-held views on various elements of the Government and those views are very difficult to reconcile.

We had planned originally to start with Steve because he was going to speak to the question of what the nature of the threat is as seen from the Defense Department. Given that he's going to be late, I think probably what we might do is ask Denis to start off and have him give us his views from the Department's perspective on this subject. So Denis, could I ask you to take the mike.

Mr. Denis Lamb

Good morning, ladies and gentlemen; thank you, Les.

My notes do start out, "Steve Bryen has explained the threat; here's what we're doing about it." But I think nevertheless we can have a profitable discussion and then Steve's and my presentations will more or less mesh.

I really want to talk to you this morning about what I would call the diplomacy of technology transfer. It's an extremely difficult issue that is becoming more and more difficult for us all the time. The fact is that the United States cannot unilaterally exercise control over what technology is transferred to the East. We did that after World War II. We had the technology and our role in rebuilding Western European economies was such that our leadership on this issue was unquestioned.

Certainly, we cannot dictate to the members of the Alliance or to Japan. We have to educate, persuade, and negotiate.

I'm assuming a little something about this audience which I hope is correct. That basically you bring two perspectives to the problem, or at least, many of you do, as representing corporations that have a relationship with the U.S. Government in the defense/national security field. You're conscious of the risks involved in eroding the technological edge that the West maintains over the Soviet Union and the Warsaw Pact. On the other hand, to the extent that you are diversified, you're interested in selling goods that don't represent a strategic risk wherever you can find markets, so that you presumably have an interest in strict control but at the same time, an interest in making sure that the U.S. Government is providing you with a level playing field. These are our allies, their corporations, the companies they have that make similar goods. You don't want to be taken advantage of and you shouldn't be.

This whole issue of tech transfer is perhaps a subset or a subissue of the broader question of how East-West economic relations ought to be conducted. Here, we have been coping, as Les mentioned, with some very basic differences in outlook and perception between ourselves and the other members of the Alliance and these differences complicate our ability to harmonize and strengthen our tech transfer policies, as Les alluded without mentioning it, to the pipeline controversy, the resolution of which, back in November, really represents a breakthrough on this subject. We have agreement now within the Alliance and have associated Japan, Australia, and New Zealand with it, to make a serious effort to improve the consensus on how East-West relations ought to be conducted. We've set in motion a series of studies to that end in NATO, in the OECD, and in COCOM. The perspective that the U.S. brings to the issue is that we must not contribute to the Soviet military build-up and to the sophistication of the Soviet weaponry. We should not, in our economic relations, in any way subsidize the Soviet economy. That said, we're prepared to engage in normal economic relations and trade that represents comparative advantage for both sides.

I think that within the Alliance, what the pipeline controversy did was bring us together, at least on the question of the need for a better consensus. Over the past couple of months, as we've pursued these studies in their initial phases, I'm very pleased to report that they are being pursued seriously on all sides and there is reasonable hope that by the NATO Ministerial meeting in June or perhaps before it at the Williamsburg Summit, we'll be able to point to some results.

The basic problem, I suppose, between us and the allies arises out of a different perspective on the detente era. One can't categorize all the European views as falling neatly into

one little package, but generally speaking, when our European allies look back at detente and look at the situation of the Soviet Union in the world now, they see a weak Soviet economy and declining prospects for economic growth within the Soviet Union. They tend to look at Afghanistan and Poland not as efforts on the part of the Soviets to extend their power, but rather as expressions of weakness. Their diplomacy failed and required either military power, in the case of Afghanistan and the invasion, or very intense political pressure, as in the case of Poland.

The allies tend to see the emergence of solidarity, the move toward market decision-making mechanisms in Hungary, Romania's independent foreign policy as fruits of detente, favorable developments brought about by detente. We, on the other hand, looking back over the same era, emphasize the build-up of Soviet military power, the rate of growth in their military spending, the expansion of the Soviet empire, directly or by proxy, and the growing debt accumulated by the Soviet Union and the Eastern European countries as an example of the accumulation of leverage over the West. We look at detente, weigh it in the balance, and we tend to see it as seriously wanting.

So that's the scope of the problem, the different perspectives we bring to it, and it gives you some idea of the difficulty that we're going to have in reconciling these differences of perspective.

The surprising thing to me in all of this is that despite these differences of viewpoints and despite the pipeline controversy, we have made steady progress within COCOM, the coordinating committee where we do our work on technology transfer. We had a high level meeting of the organization, the first in 25 years, back in January of 1982, and we gave each other a bunch of promissory notes that we're all trying to cash in now, promissory notes having to do with strengthening the embargo and making progress on priority high technology areas while at the same time eliminating items that are no longer militarily significant. Promissory notes to do more to improve enforcement of the embargo. After all, we know that despite some spectacular cases of legal transfers, the Soviet Union has acquired technology from the West primarily through illegal means. This is linked to our ability to put the kind of resources behind enforcement that are necessary to ensure that the embargo works. We made some promises to each other about harmonization. This is of commercial interest. The problem is that the embargo lists are extremely complicated. National authorities apply them in different ways. U.S. companies can be disadvantaged when a foreign licensing authority agrees to export of a product that the U.S. licensing authorities would not permit to be shipped. We're also anxious that our allies require the same kind of information on end use of a product which

might be shipped as an exception to the embargo so that we and they can have reasonable assurance that that product will not be diverted to the Soviet Union to the East.

We also talked about strengthening the Secretariat and the administration and the organization of COCOM itself. It's an extremely small organization -- 13 to 15 staff members. They provide very little support beyond translation of documents and cleaning the meeting rooms after the meeting. It's clear that the complexity of the tech transfer problem is now such that more institutionalized expertise is going to be needed to maintain the embargo. What we do now is conduct, every 3 or 4 years, a review of the embargo lists, adding items, dropping items, changing definitions. But if you look back over the last 4 or 5 years, you can see that that process is tending to become an almost continuous exercise. It's a function of the growing role of technology in weaponry; it's a function of the technological advances within the Alliance. Many more countries are in a position to provide these kinds of goods. It's a function of the rate at which civil technology is taking the lead; that is, that developments which eventually find their way into weapons tend to arise in the civil sector. This makes the control problem much more complex.

Well, if it's true that that complexity is rising and if it's true that the list review process is becoming more continuous, then there is a clear need to provide the support, the international Secretariat support, to permit that process to move expeditiously. That was one of the promisory notes exchanged back in January of 1982 at the high level meeting and it's one we are trying to cash in now.

The basic dynamics of COCOM diplomacy are very simple. When a country decides for its own reasons that it does not want to transfer technology to the East because of the impact that makes on defense budgets, because of the erosion of the technological edge that it implies, then that country has every advantage in going to the Coordinating Committee and seeking to discipline the other allies. When they come to their own realization of the importance of the issue, when they take their national decisions on how they're going to respond to it, then they come to COCOM; then we can cut a deal. You cannot twist arms successfully to bring about an improvement in this field. What is notable, I think, about the COCOM exercise is that the added importance attached by this Administration to this issue and to its diplomacy is matched in other countries in Europe, particularly those countries which produce a lot of technology of dual use or military value. That's what's infused this process with more dynamism, more commitment. We still have a long way you go. You can look at COCOM and you either see it as the glass is half empty or

half full. In terms of where we would like to be as a government, there's an enormous amount to be done, especially in the enforcement area. But on the other hand, the national commitments are in place. I think, if anything, they're getting stronger. Participation in the current list review is extremely serious and we are making headway.

One general point about this whole issue. Just as technology transfer in the United States is becoming more a matter of public concern and public awareness, so, too, internationally. COCOM, the Coordinating Committee is, in my view, out of the closet. For many years we and our allies were extremely diffident about discussing this informal process in which each country retains its sovereign rights. We're nowhere near a treaty governing technology transfer, but countries increasingly are at least willing to acknowledge that they have made commitments internationally in the COCOM framework and having done so, they're in a position to publicize those at home; they're in a position to enforce them at home; and they're in a position to work with us out in the open, if you will. This is an extremely positive development and I think this evolution will continue.

Let me leave it there and we'll see where the questions take us.

Mr. Brown

As you have noticed, Steve Bryen has arrived. He has just been handed a note saying that he's going to have to leave at 9:45, so I think without further ado, I'll turn the mike over to Steve and I think he'll be around long enough at least to answer a few of the questions that I'm sure you have.

Dr. Stephen D. Bryen

Good morning. We xerox those notes and have them ready for occasions like this. I noticed when I got to my seat there, there was already a question waiting, even before I had a chance to talk, which indicates that at least we're stimulating and that's important.

My burden this morning is to talk a bit about the overall threat problem. Denis has just concluded discussion of an effort that we've had underway really for the last 2 years now, which is to strengthen the international institutions that assist us and work with us to control the loss or transfer of sensitive technology that might go to the Eastern Bloc countries. I think he's told you that we are pressing very hard to upgrade the single most important of those institutions, an organization that is called COCOM, or the Coordinating Committee, an organization in

Paris which has the responsibility of coordinating the national policies of the participating countries -- those are the NATO countries, less Iceland and Spain, and Japan -- in terms of the trade that they conduct with the Warsaw Pact and the Soviet Union.

It's an organization that over the years, in my view, and I believe in Secretary Weinberger's view, simply did not measure up to the increasingly sophisticated problem presented by dual use technologies. Now, there are a lot of reasons why the problem became more sophisticated and difficult and tenacious. One surely is the great surge in technology that took place not so much in the military sector but more specifically in the civilian sector. In fact, very often it's the military sector today that is drawing on the inventiveness and the creativity of our civilian industry in order to improve our defense preparedness, in order to maintain what we call the quality edge that is so important for our national security.

There's no doubt in anyone's mind in this room, I think, and certainly there's no doubt on our side of the river and I believe realistically there's no doubt in the Alliance that we cannot hope to protect our national security by maintaining large quantities of weapons. We can't catch up now to the Soviet military build-up in terms of an industrial effort to produce more tanks or more guns. Those days, I think, have passed for the time. But at least since the close of World War II and drawing very heavily on the large research and development projects that progressed during that war and after it, we were able to support our national security with far better and more capable weapons systems than our adversaries possessed. That's still the case today. The difficulty is, though, that some of our most significant systems, whether they are strategic or conventional, are increasingly being matched by the Soviet Union in the quality arena. And they're doing this not entirely on their own, but they're doing it by exploiting that same civilian sector in the Western countries. To give only one simple example, but a darn important one, during the 1970s, they went from zero -- and this is really a zero -- a zero capability in microelectronics to, by the close of the 1970s, to a full-scale industry that was acquired largely because the West was asleep. And so today, we see Soviet weapons systems that have inside them in their guts American integrated circuits and microprocessors. Now, they're not American in the sense that they're chips that were bought in Radio Shack or from any of our front-line companies and installed by the Soviets, but they are American in the sense that they are direct pin-for-pin, plug-compatible copies of our integrated circuits. And they are plugged into printed circuit boards which are manufactured in the Soviet Union with U.S. and Western technology. And they are packaged -- and they are packaged very well -- in

ceramic materials with packaging technology that was brought from this country and from other Western countries.

As I said, the reason this happened was largely that we weren't looking. We were asleep. Now, today the Soviets, just in this one field, are pressing very hard to move ahead into very large scale integrated circuits, as we are. We have, in the Pentagon, a program which we regard as extremely important and beneficial to our defense effort which we call VISIC, which is the very high speed integrated circuit program. And we very much want to protect that program while at the same time we want to move that program as quickly as we can to completion and to begin changing over where we can, our equipment to these new types of integrated circuits. The advantages for us are very significant. Let me give only one example of how significant the advantages are.

If you look inside the signal processing unit which makes the look-down radar do what it needs to do in our F-15 fighter aircraft, you will find nearly 5,000 integrated circuits of medium scale design. Now, when that box was designed, that fairly well represented the state-of-the-art and I believe that the designers -- and there may be some in this room -- who worked on that effort pushed the state-of-the-art as hard as they could to give us the quality advantage that we needed to have. And by the way, a lot of the criticism of our defense programs often comes from the fact that we have to push as hard as we can to maintain the quality edge. That's why it's so painful when it's given away.

Those 5,000 integrated circuits that carry out that function -- and they do it rather well -- still have very many mechanical linkages and potential for electrical failures so that the overall unit operates normally with a mean time between failure of approximately 100 hours. Now, if we can go to VISIC approach, the very high speed integrated circuit approach, we can reduce that 5,000 circuits down to 41 circuits, which is quite an advantage for those of you who are familiar with the advantages that accrue in terms of much lower power requirements, obviously you don't need the space requirements any more, but the most spectacular change, and this is estimative but we think it's about right, your mean time between failure rate shifts from that 100 hour to what we estimate to be about 10,000 hours.

Now, that is remarkable. It means that your maintenance chain will be much easier to run, it will require far less servicing of the aircraft, and of course, the aircraft will be mission ready much more than it is at the present time. It's a major increment for us. At the same time, if that technology is compromised, we're in trouble and I think you're all aware that there is a close linkage between the technology that we in the Department of Defense are sponsoring and the civilian counterpart

of that technology, which is very large-scale integrated circuits. There are already very large-scale integrated circuits on the commercial marketplace today. Need I mention the 64K random access memory which is available, made not only in this country but in Europe and Japan and soon to come, if it's not here already, the 256K random access memory, the new generation of memory chips for commercial utilization.

It should seem clear that to properly protect this kind of capability, we need to protect both the military side and the civilian side, and we need to do that not just on our own or unilaterally. Those days are past on the whole. We need to do that in combination with our allies and friends.

That's where our industry become exceedingly important to the effort. This will happen not because Government by itself pushes as hard -- and we have been pushing hard to get the job done -- but when Government and industry together push to get it done.

What do I mean by that? What I mean is this. The time has come, it seems to me, that American industry must talk to its counterparts in Europe and Japan and indicate to their colleagues the significance and importance to our mutual security of taking voluntary steps to protect these kinds of technology. In some countries, there's nothing that resembles industrial security. We have a pretty good program for a number of reasons. First, many of you that are involved with the Defense Department are part of our industrial security program. Secondly, our industry, on the whole, protects its proprietary interests. That is not always true abroad where the standards are far below what our standards are.

I hope that as you work with your colleagues abroad in cooperative efforts that you convey to them not only the significance to our national security, but the direct relevance to your business interests, if your proprietary data is compromised because of shoddy security procedures in other countries.

I started to speak about the international effort that we in the Government are promoting. We have had, and I think Denis would agree with me, in the last year and a half, some success. We've had that in COCOM and we've also had some success in NATO, where for the first time in more than 25 years, NATO has addressed the problem of the transfer of sensitive technology and has addressed it in the context of those military missions that NATO is responsible for. They've already produced one extremely important report and a committee now is meeting to discern the best ways to protect the new emerging technologies that are so vital to our future defense effort.

We within the Department of Defense have been working very hard to organize and streamline our internal auditing process. When I came to the Defense Department two years ago, there was not really a sufficiently expeditious and standardized process to consider these matters, both in the area of cooperation and in the area of security. We have sought in the past two years to develop a new system in the Department, one that can respond and move quickly; one that will be fair, both to industry and to the national interests; one that will be consistent. And I can report to you today that we have made great progress in that regard. In particular, we have organized ourselves in more effective ways and integrated the various military services and intelligence arms into a united and effective whole. We have automated a good part of our effort so that we can track better those threats to the security that may exist and that we can move the paper that has to move through the Pentagon -- I don't always know why -- but that we could move that paper electronically and quickly and securely and get the job done. We are anxious to work with our industrial partners and friends, both here and abroad, to reach what I think is a shared and common objective. Of course, that objective, first and foremost, is to see to it that we do not lose that edge that we must have in our national defense programs for providing security to our country.

Thank you.

Mr. Brown

The floor is now open to questions. I've got a few already, which I might use to break the ice. What we'd like to do is for you to fill out the cards that Nelson Jackson is handing out and so let me start on sort of the order in which we've received them. The first is a fairly basic one, addressed to both of the panelists. When will the Administration have an Export Administration Act position and will it fall closer to the Brady-Perle position or to the Ulmer-Treasury position? Let me just say a word that the Export Administration Act, I think we now have on the Hill something like 4 or perhaps even 6 versions of it, so that to say the situation is chaotic is to understate it. Denis, why don't you speak first to that one.

Mr. Lamb

I think the answer is we'll have a position very soon, but I've been giving the same answer for the last month. There will be a meeting today involving some members of the Cabinet, which should narrow some of the remaining issues down considerably, perhaps even reach decisions on them. I would think that by the time Senate Banking holds its hearings on April 14, we would

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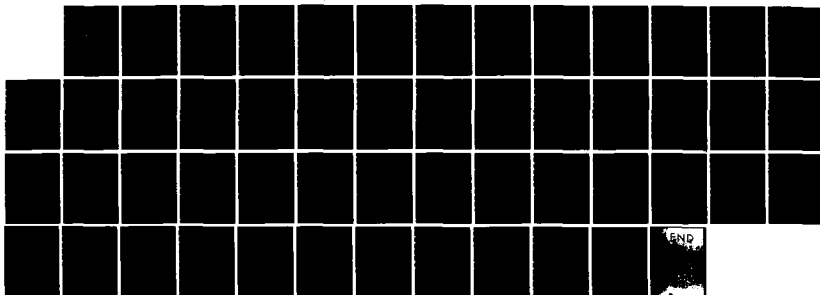
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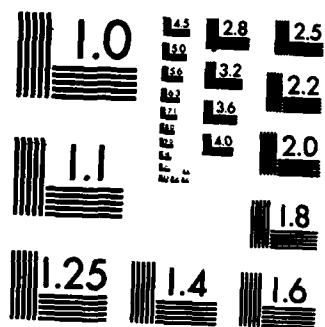
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not only have decided on a position, but would have had a bill introduced. I think it's an interesting line-up the questioner put forward, Brady-Perle versus Commerce-Treasury. I followed the evolution of our discussions within the Administration and I don't quite see the tensions developing that way. They tend to arise over particular provisions on which agencies have different perspectives, and they concern the broader issue of how much change and how much stability the Administration ought to be seeking in the Act.

Mr. Brown

Okay, Steve, one for you. What is the status of the Pentagon's technology transfer control group headed by Richard Perle? Are you satisfied with its progress on technical papers and meetings? Does Dick Perle dominate the process, or does Bill Schneider of the State Department? You have a judgemental question there.

Dr. Bryen

Actually, I think that there are two things that are mixed together here. We do have meeting in the Pentagon a panel that was approved by Secretary Weinberger which is intended to try and sort out how we handle the clearance of technical papers that are produced either by personnel in the Defense Department or by contractors under contract with the Defense Department. That panel is not chaired by Mr. Perle; it's chaired by Dr. Edith Martin and I'm a member of the panel, as are many other agencies in the Department. It's a very complicated area. The reason is that what we're largely talking about is not the problem of dealing with classified materials but we are talking about how do you deal with sensitive but not classified materials. Now, two approaches can be taken. The first approach is just classify what you think is sensitive and don't worry about it anymore. The difficulty is -- and the reason we've sought to explore the issue in great depth -- if you do take the approach of classifying what is sensitive, you're going to find very quickly that you fall into that gray area where you are classifying what is otherwise out in the world unclassified. This is the same problem that I talked about earlier when I said that the civilian technology arena has surged. You really can't do that. The second approach is to find some standards and criteria that work and that are understandable. There was adopted a concept that somehow the military critical technologies list could provide that guidance for DOD employees. Our view is that that is probably a naive view, as much as we would like it, and at the same time, if we're going to do it in a way that harmonizes with the overall trends in our industry. So we have a very major definitional problem. I think that many of you will recall the

problem we had not long ago just two days before the conference began, some very sensitive topics dealing with some of our most advanced programs in the Defense Department were about to be discussed by our experts at a conference in which there were promised to be 22 Soviets. It didn't sit well. It didn't sit well at all. Among the topics that were to be discussed were how to create obscurity on the battlefield so that you can't see the enemy. I don't know why in the world we would explain how to do that to the Soviets. But we were about to do it and do it well. When we looked at those papers, they were astounding. As a consequence, and with the Secretary's authorization, we sent a team out to San Diego at the last minute, one from each of our Services and the East-West Trade Bureau at State, Denis provided us with one of their top-notch attorneys, to sort this thing out. We asked each of the participants whether their papers were cleared. Well, it turned out that about 120 of them hadn't been, at which point we suggested that they might like to get in touch with their particular divisions and see whether they were supposed to be presenting the paper and voila, 120 papers were withdrawn by the participants, not by us. We have a problem on our hands. We know we have a problem on our hands. Incidentally, just to put a little icing on the cake, one of the Soviet delegates went to the meetings we were most worried about and took photos of every vu-graph that went up on the screen. Now, clearly, you can't do this by responding every two days to a conference and finding out whether or not sensitive things are going to be said. It won't work that way. And more than that, we're only talking here about the DOD part. What about the other part, out in the world there? We need to find a way to define this better. We're working that. And we need industry to define a way to talk on these issues, too -- there's no perfect system -- so that we can exercise care and sensitivity to the national security. Now, that effort, as I said, is presently being headed by Dr. Martin. There is a separate program, and I think the other part of the question referred to the separate one, which is what we call our T² or technology transfer panel. There are two panels that have been created; a sub-panel, on which I sit, and then a panel at the Assistant Secretary level.

Now, why do we have the panels and what's this all about? In the past, I found, when I got to the Defense Department, that we had, laying around, applications for export, applications for cooperation with allies, dual use cases -- two, three, four years old -- that had gotten stuck in the system, that wouldn't move because one person had objections and there was no way to move them logically up the chain. You could move them up one chain -- and you know the Pentagon's complicated -- you could move them up one chain and then all of a sudden, another bubble came up elsewhere and there was another chain to move up. It was like

multiple elevators, but with no top floor. We thought that that was an unfair system, that it assured that nothing would get done. And we were looking for a mechanism that could quickly bring all the various interests -- the military departments, the intelligence people, the policy, the technical people -- all together in one place to either say yea or nay. If it's a nay, buck it up. So the sub-panel gets it first and it can meet as required and say yea or nay. It only takes one vote to say nay; we're not trying to override anybody's interests, but we are trying to move it up the chain. If it's truly controversial, it ought to go all the way up to the Secretary for resolution and do so quickly. If someone really has a significant objection, that objection ought to be heard. So the equity has to be on both sides. On the business side, rapid resolution of the difficulty; on the Government side, a fair hearing to the objection. Both of these aspects need to be married together and the objective of the panel, which runs only to the Assistant Secretary level, is to try and make that happen. Now, I can't report to you yet what the success or failure rate will be with the panel, whether it will meet what our expectations are. So far, since the panel has been created there hasn't been an issue that the panel has been required to address. We don't have any controversy. But if we do have it, the panels will meet and I hope will move rapidly to resolve it.

Question

A follow-up question, please. In the near-term conference coming up, nothing that is obviously sensitive like the issue that you mentioned we have a week or two to go; what do we do to try and resolve the things?

Dr. Bryen

At this point, there is no formal mechanism that we have established yet to deal with the problem because, as I said earlier, we are still trying to define the best procedure. What you can do, if you have concern about it -- notice how I threw the ball back at you -- my office certainly will be glad to quickly move it through the system, check it out, and give you a full report as rapidly as we can. We are not really staffed for that yet, but we're willing to take it on and we have been doing this on an informal basis with a number of conference organizers. I don't like the system. I don't like it because it is very judgemental in the current form and very loose. But we will do the best we can so as to point out to you, frankly, where people may discern a problem. What I worry about is whether we are consistent and whether we are precise. Now, there is an area of judgement in this. Even if we come up with the most elegant definitions in the world, we're going to have a grey area and I don't think there's any way out of that. But then

what we need is a rapid turn-around mechanism that can arrive at a kind of consensus, deal with the conference organizers, tell them where the problem is, and come to a rapid conclusion on how to handle it.

Now, there's another angle that we can play and one that we think a lot of in the Defense Department, and that's to try to keep the Russians out of our conferences. I've been trying to convince my friends in the State Department that's a good thing, and they're starting to understand us and hopefully, we'll have fewer Russians in these conferences in the future, fewer Eastern Europeans, and so we can talk among our friends -- and I don't mean only in America, but I mean our friends in Europe and abroad. I think that's important, too, because there's the chance otherwise, when everyone thinks every conference is penetrated, that the most draconian kinds of attitudes develop. We don't want that, either. So we have to find that middle ground. We're working hard to get there and I do hope that very soon, we will resolve this and we will certainly make known to everyone involved exactly the procedure, how it will work, and especially we need to get the word out, once we know ourselves, to people in the Defense Department so that everyone instinctively follows the procedure.

Mr. Brown

Since this particular panel is supposed to be policy oriented, I've got a couple of questions from the floor that seem to me, in particular, aim in that direction. This one I think would be an interesting one. This is addressed to Steve. What would you have done during the 1970s, when you said we were asleep, to have prevented the Soviets from obtaining our integrated circuit technology? Should we have put security blanket on all patent applications and just how do you control civilian technology? It seems to me this sort of goes right to the heart of the problem we're trying to deal with.

Dr. Bryen

Yes, I think it does. I'll tell you what I would have done in the 70s, if I had been in a position to do it. First of all, I would not have exported manufacturing technology to the Soviet Bloc. Equipment and know-how. Now, that would have required an energetic effort, not only by the Defense Department, but mainly by the Commerce Department. So I wouldn't have liquidated half the people in the Commerce Department who had this responsibility; and they were liquidated in the 1970s. More than that, at the same time, I would have been careful to distinguish between manufacturing technology on the one hand and components on the other. I'm far less worried about some components and I'm far more worried about the machines that make those components. So I would have

been very, very careful there. The next point is I would have told those abroad who were buying these equipments from us that we expected accountability, that we didn't expect them to be transit points to the Soviet Bloc. And that's what happened during the 1970s -- stuff went to Switzerland and this place and that place and then on to the Soviet Union. By the way, they're still trying to do it.

Next, I would have worked as we are working today to beef up the COCOM effort and to develop sensitivity to the problem. We knew what the defense implications of semi-conductors were in the 1970s, because we were deploying them in the 1970s. We just didn't do our job.

Mr. Brown

Steve, another one for you and I'm addressing most of these to you because I know that your time is short. Could you specify for this group the countries that you consider to be high risk in the industrial security area? Is it assumed that places like the U.K., Germany, Japan, Australia, Canada are safe?

Dr. Bryen

It's assumed that those countries where we have industrial security agreements, that is, our Defense Department has industrial security agreements, are implementing procedures to try and protect their defense industries. Now, whether that applies necessarily to the civilian side often depends on whether they have the institutional back-up to assure that security. By the way, we didn't have much of an institutional back-up just a few years ago. I'll give you a program that I think is extremely important and by the way, I believe it's important not only to our national security, but it's important to our industry and that is our Exodus Program, a program that's run through our Customs Department to check outbound goods and equipment. That program has already seized somewhere around \$70 million worth of illegal exports in its first year of operation. Now, that's before Exodus was put in place by this Administration, and by the way, operations this year are funded very heavily by the Defense Department. Before that was in place, we had around -- and I will not guarantee this as an accurate figure, but it's pretty close -- we had four inspectors checking outbound cargo for the entire United States. I've seen people in the Pentagon work hard, but that's a task that no one can really do.

American business and industry is not in the business of illegally exporting goods. There is a kind of mafia that operates to illegally export goods to the Soviet Bloc. But what they do is they buy equipments from industry, from our aerospace industry for example, package it up and ship it to some location where then it is again repackaged and sent on to the Soviet Bloc. If

nobody looks in the boxes or checks to see, it's gone. The Exodus Program is designed to make sure that it's not gone. As I said, it's being very successful. Now, if you look at our counterparts abroad, you will find that they are where we were before we had the Exodus Program in many cases. In some, curiously, they are better than we are because they actually had a first-class Customs Service that was doing its job. So that, to me, is an important step forward.

All this bears down on the overall problem of enforcement and we have been very sensitive to the need to strengthen our own enforcement procedures and to encourage allies and friends abroad to do the same thing. There has been some improvement, but there is still the fellow named who some of you certainly have heard about who managed to steal some extremely sensitive equipment from the United States, who made millions of dollars -- he is a millionaire -- who sits in Western Germany unprosecuted, unextradited, untouchable. Now, we've got to change that kind of procedure. If you don't catch these people and bring the full force of the law against them, then they will only calculate the costs and charge the Soviet Union appropriately and take home the same profit. Then you will have our industry and our counterparts abroad being ripped off in an ever-increasing way. We will lose the effort we're trying to succeed in carrying out. Our defense will be diminished and in the end, our companies in this country will get blamed for it. And that's not fair. So, enforcement is terribly important, and that's the hardest. No one has a perfect record. We here don't have a perfect record; I can show you endless examples of problems that have occurred, but we're getting better. None of our allies have a perfect record. None of our friends have a perfect record. So we have taken the view that we are going to try and work with our allies abroad. Where we think something is threatened or where they don't have the proper capability to protect it, we're going to have a conversation with them before the export takes place to see if we can't find a way to solve the problem. I must say that on the whole, when it's put to them in this way, they do cooperate and we do arrive at solutions. It takes a little bit longer, but in the end it's so much better for our security. That's the approach we're taking.

Mr. Brown

I have three questions here that are all related, so let me try to paraphrase them. They all have to do with COCOM and I think either or both of our panelists may want to answer them. The questions run roughly like this. First that some companies are experiencing problems exporting items that contain technology on the COCOM list, but many of these technologies and items are many years old and at widespread use in Europe. Two questioners

ask when will the current list be updated, including the question will COCOM members use the same military critical technology list that the U.S. has published. If not, how will we deal with the question of what's to be controlled and what isn't? A more specific question along this same line is that the questioner has asked that when a particular item -- and the item here in question is a radio altimeter -- which has cleared COCOM in the past for the PRC and is actually being used by the PRC in some of its airplanes and helicopters, why does it have to go to COCOM a second time. What we're seeing here, I think, are fairly basic questions of COCOM procedures on what the rules of engagement are and are they being regularly updated. Denis, do you want to take a whack at that one?

Mr. Lamb

Let me say a few things and Steve may have something to add. The current list review began last October. It will run on into this fall and if we're lucky we'll conclude it in the fall -- a 12-month effort. The first session of the list review concluded on February 25. We're taking an intersessional break, doing some other work within the organization, will have another high level meeting in April, and we'll begin on April 25 a special meeting on computers and then the second part of the list review will continue.

We have made a rather large set of proposals for this list review. We've submitted new proposals or amendments to 100 definitions on the dual use list. Other countries have made suggestions of their own. They're intensely interested in what we want to do. The debate is extremely complex and extremely difficult. We are quite confident that we will make major improvements in the list through this process, both to add new emerging items, to rectify some of the mistakes of the mid-70s that Steve referred to in answering another question, and in dropping off some of the less critical items. I would say that the age of a technology is not necessarily a controlling element in the list review process. We look very carefully at Soviet capabilities. If we have a technology that's important militarily, and Soviet capabilities are extremely limited in the area, then age is essentially irrelevant.

On China, I suppose one ought to say that the way COCOM works, what it does week to week normally, year in and year out, is consider exceptions to the embargo. There are cases where it makes sense, because of the end use, to allow an export to take place even though the equipment is on the embargo lists. Our policy with regard to China permits exports of certain goods which would not be sent to the Warsaw Pact. These must be taken to COCOM; there must be unanimous agreement on the part of the

members that the export is appropriate, and there is no grandfathering. Simply because you have supplied a particular item in the past does not mean that it can go in any quantity in any numbers at any time to a particular destination. We have to bring it back into the organization. Now, hopefully, once you have a precedent, if it's a worthy precedent, that will smooth the passage of the item through the process.

Dr. Bryen

Just a comment. The approach that COCOM has used classically is essentially the approach of a parts list. That is to say, it defines the parameters of certain equipments which require a license and those equipments which don't require a license. But it's essentially a parts list. It only incidentally controls the technology that goes with the parts. It doesn't address it directly. In fact, most of our partners have taken what I would call the parts list approach nationally and have not tried to deal with the underlying process know-how technology questions which are even more basic and fundamental, because if you can reach agreement on those fundamental technologies, it's far easier than to discern which equipments should be approved and which shouldn't, or which don't even require a license.

Now, we for years have been asking for some change in that approach in COCOM. Now some of our partners have recognized its significance and we're rather encouraged that we can change it around. The MCTL, as most of you by now know, is not a control list. It won't work as a control list. It's a classified list, as you know, but for those of you that have clearances and have read the list and then have tried to apply that against a particular product will find it quite difficult to do because it's not that sort of list. It was essentially designed to indicate in a clear way what the family jewels are in terms of defense systems. That is to say, what technologies are absolutely vital to our defense effort. That's what it's all about. Now what we use it for is a guidepost in working on the precise definitions and terms that are required for the list review procedure that takes place in COCOM, so in that regard, it's quite helpful. But it doesn't do the job, not at all. It takes a great deal of technical work in cooperation with industry that's vital to coming up with these definitions. Once we have them, then we have to go and negotiate and that's the painful process -- it's not only painful but rather a deadly process that we have been engaged in since the current list review has begun. Our targets are, in general terms, to try and get very firm control on manufacturing technologies and on the high end equipments, such as very fast computers, and to decontrol the bottom end where all we're doing is enriching bureaucrats in terms of making work for them dealing with these low-end materials. I think we're going to get there.

Now, there is one other target that we do have and that is to close some glaring loopholes in the COCOM coverage that occurred, again, during the 1970s when some very important technologies were taken off the list and should never have been. For example, multi-layered flexible printed circuit boards which are so vital to missiles and to equipment that must survive shock -- I'm not talking about the parts, I'm talking about the technology -- was decontrolled in the 1970s, wiped away from the COCOM list and so could be sold legally to the Soviet Bloc. Those are the kinds of gaps in the coverage that we think are unconscionable and should be changed.

So, to summarize, really three parts. One, to focus the list much more on manufacturing technologies, and on including technology generically in the list. Two, to decontrol the low end where we really don't need to busy people dealing with parts and equipment, along the lines of the question, that you can probably get from some third source outside of COCOM anyway. Third, to get at those major loopholes in the COCOM coverage that are giving the Soviets access to technology that is significantly important to their military effort.

Mr. Brown

Steve, I know you have to leave, but I've got three more questions that all fall into one category. That has to do with MOUs and what the relationship of Memoranda of Understanding with our allies, how do they relate to the tech transfer issue, and to what extent has technology transfer -- the problem of technology transfer -- held them up.

Dr. Bryen

Well, anyone that has been involved in these detailed projects, some of our co-production of some of our weapons systems, knows that there is a wide variety of some of the things that can hold them up, everything ranging from the cost of the system, and who pays what, to whether country X can get a waiver of the R&D recoupment so they don't have to pay that bill. There are endless complications in these things. I don't believe the technology transfer issue has held them up at all. We have asked, in some very limited but very special cases, for special protections for significant programs that we want to protect. I wish, by the way, we had done that a bit in the past. I'm not going to name names or point fingers, but I know of one very major system that is being co-produced elsewhere where the country has absolutely no industrial security. That's crazy. We have to be more careful than that in the future. If we can't have comprehensive industrial security, let's at least have industrial security to protect our stuff. And I believe that if we ask and if we're precise, we

usually get that and that these have not held up anything. The other thing we've asked is for some flow-back. If we're going to sponsor and pay for technology here, and particularly if we're going to waive recoupment loss, then coming back to us should be some flow-back, some good for this country, some good for our national defense program. So we've tried to build that in. I don't know of any cases that have actually been held up. In fact, in some ways where we can settle these things right up front instead of them being lingering doubts which then make everyone go slow, we can actually, in the end, do it much more quickly. I think that's how it's going to go. So on the whole, I think we're moving in the right direction.

Mr. Brown

Denis, why aren't Austria, New Zealand, and Spain in COCOM?

Mr. Lamb

Austria, New Zealand, and Spain? Three very different cases. Spain, as a member of NATO, is a logical candidate for COCOM membership. Spain is going to have to get over the problems created by the election of the Socialists in Spain, sort out its relation to NATO, and however that question is decided that will determine its ultimate COCOM membership, which we would welcome, although Spain is not a significant producer of high technology goods.

Austria, as a neutral, will not join COCOM, nor will Switzerland or Sweden. It's as simple as that. This is an organization with a political and security rationale which the Austrians, given their neutral status and the state treaty, are not going to become members of.

New Zealand is a country of 3 million people and lives off the dairy industry. If that situation ever changes, one might conceivably foresee a role for New Zealand within NATO and as an . . . ally, the United States certainly makes an effort to keep New Zealand and Australia, which might be even a better candidate, closely informed of COCOM's work.

Mr. Brown

I had a couple of questions that I think I would, myself, like to try to answer. One has to do with the Security Assistance Program. The questioner points out that it's based, at least in part, on the principle of developing self-sufficiency on the part of the country being assisted and since self-sufficiency of a country like Japan seems to be such a major problem for this country, should the Security Assistance Program be altered in terms of the self-sufficiency objective.

I think what we're dealing with here, basically, are the co-production and licensing and other elements of the Security Assistance Program, rather than the program as a whole, which is not really designed for self-sufficiency, in most cases. We do not expect Korea, which is a major recipient of Security Assistance help, or Turkey or Thailand to be self-sufficient. What we are asking of them is that they be capable of contributing to a mutual defense arrangement. I personally think that the question of the co-production and licensing with a view to developing self-sufficiency had a certain appeal 10 or 15 years ago -- the idea that a country could manufacture its own ammunition, its own artillery, its own M-16s or rifles, that kind of thing -- and it had a certain plausibility. What's happened since, of course, is that since very few countries are able to maintain a production base, given the sort of purchases that their own self-defense forces make, the next logical step to keep this capital investment earning a reasonable return and keeping employment up, is they want to get into the export business. We have had really very serious problems with Korea, with Israel, just to name two, who are now in the export business and are competing directly with, I'm sure, or trying to compete with a fair number of companies represented in this room. Self-sufficiency was the objective; now it becomes a far more serious problem, not only a commercial problem in terms of the competition -- we've created these new centers of defense industry overseas. There is also a security problem in the sense that a lot of the customers or potential customers of these exporters are not people to whom we are prepared to see military equipment go. I can give you some specific examples. There are at least two countries in the world today who will buy arms from absolutely anyone out of desperate need -- Iran and Iraq. U.S. policy is that we will be neutral in this war and we will sell to neither, but those countries that are manufacturing spare parts or whole systems under U.S. license have been approached by both Iran and Iraq to buy material and what it does is get us then into a dispute with three or four countries as to whether we will approve a third-country transfer, and the answer is we will not. It now has become an irritant in our relations. So I think the question is well taken. The problem is that I think the horse is out of the barn and over the fence. We've already done it. I think people are aware now of the downstream problems that we create for ourselves with co-production and licensing agreements and yet they still have a certain validity, if only because they are often a condition of sale that a lot of countries won't buy off the shelf anymore. They insist that they have some piece of the action, maybe all of it. So, it's in a sense an insoluble problem, but I think the question is well taken.

I have another question that when Company A sells a high technology munitions list item to another U.S. company, B, and

Company A knows that Company B intends to incorporate the component into a munitions list system for export, what obligation does Company A have to Department of State or DOD concerning the transaction? The answer is none at all. We don't control the internal trade between companies in the United States, and indeed we shouldn't, but Company B still has to come to Department of State for an export license. So, while we don't control these sub-transactions, before that item leaves the country it must have an export license, so we control it on that basis.

Another question having to do with FMS, is the current Administration committed to controlling the flow of sensitive technology through FMS, and does this Administration feel that COCOM agreements have been honored by foreign countries? I'll answer the first one and let Denis answer the second one. Yes, the sensitive technologies issue under foreign military sales is a very neuralgic point. We do control technologies through this system. You're all familiar, I'm sure, with the NDPC system and before we can export certain sensitive systems, we have to get an NDPC clearance. Chuck Meisner, who is sitting in the audience here, knows what that process is very well. And it's very clear to me, having spent now two years in this Administration, that there has been a significant tightening of the NDPC review process, and I have certain problems with it. But nonetheless, it's very real and the most recent example is one that got spread out all over the newspapers a couple of months ago and that was the F-16 sale to Pakistan and that component of it, the LR-69, which sort of flew up to the top levels of this Government, precisely on the technology transfer issue. So it's a very real one.

Do you want to say anything about this, Denis?

Mr. Lamb

The question is whether our COCOM allies have honored their commitments in the organization, and the short answer to that is yes. COCOM is not a treaty, it's not a binding agreement. Each member reserves the sovereign right to make any export it wishes, despite COCOM's advice, should it wish to. But over the years that COCOM has been in existence, there have been very, very few occasions on which countries have actually exercised that sovereign right to make an export despite objections raised in COCOM. That doesn't mean, however, that everything is just fine. I think the problems that we have been most concerned about fall into the area of enforcement. After all, if a company or an operator of some sort in a foreign country does not go to the national authorities of that country for a license and the COCOM process is not triggered, you could very well have an illegal export of a sensitive technology, which is just as damaging or, in some

cases, moreso, and what would happen if a country with licensing authority chose to ignore COCOM's advice? So, problems that we have tended to focus on fall into the area of enforcement, not so much problems of countries ignoring their COCOM obligations.

Mr. Brown

It's now a little after 10:00 o'clock and Nelson Jackson informs me that we are now ready for a coffee break. Let me suggest that for that pile of questions that we have not got to, that you try to catch us in the next 15 minutes and we'll try to answer them privately. Thank you.

SESSION V

TECHNOLOGY TRANSFER PROCEDURES

Captain Jackson

. Also, the list of attendees will be included in the proceedings in the back.

Question

Nelson, could you include those questions that weren't covered into the proceedings?

Captain Jackson

That's a possibility, but the probability of that is very difficult. We're dealing with a monolithic system. I could try, certainly. I would not want to hold up the proceedings for a long period of time in getting those in. I will attempt to do that, but what you see is what you get.

Mr. Brown

We'll now move into the second part of the morning. The brochure that you have is slightly out of date. We have a rather different set of panelists than you were told you would have. Let me just briefly describe who they are. Mr. Talbot Lindstrom, who will be the lead-off speaker for this session, is the Deputy Under Secretary of Defense for International Programs and Technology in DR&E. Mr. Dan Hoydysh is Chairman of the Operating Committee on Export Policy for the Department of Commerce. Mr. John Schmick is a VP at Boeing International Corporation, and finally, Mr. David Shore, Divisional Vice President of RCA,

Government Systems Division. It seems to me we have quite an array of talent and I will forthwith turn the microphone over to Mr. Lindstrom. Since we do have four panelists instead of two, I would hope that they would keep their remarks short so that we'll have ample time for questions. The last session demonstrated far more questions than we could possibly find time to answer and that, in part, is really the point of this session, to give the audience a chance to express your views and obtain information. So, Mr. Lindstrom, the microphone is yours.

Mr. Talbot S. Lindstrom

Thank you very much. In consonance with the Chairman's remarks, I will try to keep this brief. I think this will be and we hope it will be of some interest to you. I know you've already had a great deal this morning on these same issues. My own presentation may be directed a little bit less toward the policy, a little more towards the nuts-and-bolts implementation.

I'm going to be addressing a number of basic issues and outlining some of the steps that we are taking to improve our control of technology transfer to the Soviet Bloc, while at the same time, supporting necessary transfers to our allies and minimizing the negative affects of our commercial trade. You can see the basic issues; let me just outline them. One, the importance of the U.S. lead in advanced technologies. Secondly, the issue of the Soviet acquisition of Western technology. Thirdly, the need to transfer technology to our allies for our mutual security; the foreign availability of technology; and finally, the tightening of export controls with a minimum impact on commercial trade.

As I'm sure Dr. Bryen indicated to you this morning with several rather telling examples -- and those, the mild examples in many cases -- there has been a major effort by the Soviets to obtain Western technology through legal and illegal channels. A recent intelligence report which has been made publicly available, and which I think many of you have seen, provides a good treatment of the subject. This report indicates the Soviet effort is a massive and well-orchestrated effort. It's designed to and does improve the weapons performance; it saves the millions of dollars of research and development costs; it has enabled them and continues to enable them to modernize Soviet industry, aimed, of course, at their military side, and helps them to develop countermeasures to Western equipment.

We recognize the need to transfer technology to our allies to promote the goals of standardization and interoperability, something with which this organization has been concerned in a very major way for several years, and to maximize the return on our joint investment in R&D. At the same time, we must ensure

that there is no diversion of such technology. The qualitative edge of U.S. weaponry is essential to offset the Soviet quantitative superiority, and this problem is compounded by the fact that many advanced technologies appear first in the commercial sector before being fully exploited by the military. Quite often we hear the argument that if we could only invest enough in research and development, we would not have to worry about export control. That's unfortunately an oversimplification, in that we have to pursue both goals, both to plug the leaks and the investment in R&D. Otherwise, we will have to invest inordinate amounts in R&D and even then, not be sure that we have not given the Soviets the technologies to defeat us. I think, again, you had examples this morning of those problems and the Congressional testimony over the last couple of years has also been replete with examples of the costs to the U.S. defense effort of transfers to the Bloc.

We at DOD, as you in the ADPA -- which I can say, having been myself a member for about 5 years -- consider technology to be a key national asset. We recognize, however, the need, as I mentioned earlier, to transfer technology to our allies to support the goals that are addressed in the chart you have up on the vugraph. That is, the U.S. will continue to support those transfers of technology which strengthen collective security, maximize the effective return on our collective investment in research and development, and provide -- and this is very important -- adequate protection against unauthorized third country retransfers. It doesn't do much good if we are sharing our technology to improve the Alliance levels of military proficiency and to improve our qualitative edge if at the same time there are unauthorized retransfers that tend to denigrate that qualitative edge.

With respect to highly advanced revolutionary design in manufacturing know-how, both security and economic arguments require that such transfers will only be made if they directly -- I repeat, directly -- support U.S. national security goals.

The subject of foreign availability is, of course, a very complex issue and I know that many of you that I have spoken with before are very concerned with this. We first must understand that the United States is no longer the sole developer of advanced technology and, at the same time, we must recognize that in many areas of concern to the U.S., for example, in computers, we face increased competition from abroad. Secondly, much of the advanced technology is dual use and the technology transfer takes place through commercial channels, many of which are very difficult to control. What this all means is that in order to prevent the diversion of these technologies to the Soviets, we must seek and are seeking international multi-lateral agreements -- in some cases, bilateral agreements where multi-lateral are not possible. This has been our policy, it is our policy, we are re-emphasizing our efforts

in this direction and I think we are having some success. We also must develop good data bases so we know what is out there and what we can control effectively.

We, at Defense, do understand the importance of minimizing unnecessary restraints on our trade while at the same time protecting our national security. We believe that we can achieve these objectives by following the overall thrust of the Bussey report. The MCTL is a step in that direction. It of course needs revision and implementation with the continuous participation of industry. This, of course, is taking place and we think we are moving toward producing with each new addition a very useful and worthwhile document. Increased resources, which we are applying to this problem, will also improve the efficiency and quality of our technology transfer review process.

Let me just briefly highlight some of the accomplishments which we think we have achieved in the recent past and are continuing to achieve. With respect to the dual use case processing, we are meeting our deadlines in DOD and I expect -- and I know -- that munitions case timeliness will improve also. Certainly, we in our shop are doing all to achieve that. I know that DOD as a whole is doing so.

Certainly, automation. The . . . data base is going to help this. In addition, we are taking steps to improve the extent that we are involved in the process the review of FMS and national disclosure policy transfer cases.

The implementation of the Administration's policy requires the development of new technology release guidelines. Examples of these are as follows: increased use of the MCTL; technical data revision initiative; new guidelines on composites; FX fighter sales to third world countries; inertial guidance systems; EW threat data; night vision, etc.

In the international arena, my office shares major responsibilities. Again, you've had a lot of discussion about that from Dr. Bryen this morning. We are, along with his office, intimately involved, as with Commerce and with State, in the ongoing COCOM list review. We are managing a massive technical effort required to negotiate well over 100 new technical proposals. Of course, those proposals go to help solve the foreign availability problem, as well. We have also been successful -- and we hope to continue to be successful -- in our discussions and in our ongoing discussions with neutral and other friendly third countries that are not part of the COCOM arrangement to reduce the diversion potential.

As I have previously mentioned, we continue to support the goals of international R&D cooperation. The transfer channels

are means towards that goal and we will be making improvements in all the following areas: our data exchange agreements; our information exchange programs; our technical cooperation programs; improving the MOU munitions license compatibility. In contrast to the previous Administration, we believe that we have a well-thought-out arms control policy which we intend to fully implement to the mutual benefit of the national security of the United States and in consonance with the goals of U.S. industry.

Thank you very much.

Mr. Brown

The next panelist to take the microphone is Mr. Dan Hoydysh.

Mr. Dan Hoydysh

Thank you. As we all know, the Government has several means through which to control technology transfers. The most obvious, of course, are classification, export controls, contractual restrictions, visa controls, and lastly, although not in the least unimportant, is encouragement -- simply heightening the awareness of the problem.

When we talk about what the role of the Department of Commerce is, we're talking, of course, about export controls and the Export Administration Act of 1979. This Act controls dual use technology and commodities. When we talk about technology in terms of export controls, we're talking about information as opposed to hardware, which is in the commodities aspect.

There are three types of controls. Two main types are listed; national security and foreign policy. There is also a section that deals with short supply controls which include such things as bovine hides and western cedar, which is probably of not much interest to this group.

National security controls -- there's a two-prong test. If it makes a significant contribution to the military potential of any country that would prove detrimental to the national security of the United States. This authority is exercised in consultation with the Secretary of Defense.

Foreign policy controls -- again, restrict exports to the extent necessary to further significantly the foreign policy of the United States or to fulfill declared international obligations. This authority is exercised in consultation with the Secretary of State.

This system of export controls is implemented essentially by a licensing system. We have general licenses, which apply to a

whole class of commodities. There are some 18 types of general licenses. There are validated licenses; these are transactions specific for each specific commodity or for each group of technical data that you transmit you have to get a special authorization.

There are other licenses, such as distribution licenses, which apply mostly to Free World countries and are restricted to certain commodities for pre-cleared consignees.

We've got the commodity control list, which lists all of the hardware and some of the technical data that is controlled. We've got technical data regulations which apply specifically to the transfer of information. We're talking about industrial process information, specifically.

Then we've got COCOM, which has been discussed several times before, which is the international organization that oversees the multi-lateral controls.

The export policy -- I'll just mention this very briefly -- the commodity control list and the regulations tell you when you need a license. Export policy determines whether a license gets approved or not. This slide is just briefly to indicate that there is somewhat of a distinction between Eastern Europe and USSR and Poland -- that the USSR and Poland get much stricter review than Eastern Europe.

Of particular interest to exporters nowadays is the export policy with respect to the People's Republic of China. A couple of years ago the President announced new export policy, the goal of which was to support a strong, secure, and friendly China. Some technical levels of approval -- so-called two-times levels of approval -- or for predisposition for approval were established whereby significantly higher levels of technology or commodities would be approved to the People's Republic of China than had been previously. There is a very significant exception to that and that's in very sensitive areas of nuclear weapons and their delivery systems, electronic and anti-submarine warfare, and intelligence gathering. These levels were published in the Federal Register December 29, 1981.

Now, let me get on to discussing some of the developments which I've categorized here as administrative, legislative, and regulatory. These are the things that are ongoing now and that will be of most interest to people in the practice.

First, let me just mention COCOM, which is not in any of those three categories. We've heard about the list review which is in progress now. One thing which may not have been discussed is that the Commerce Department and the State Department are involved in a

series of bilateral discussions with some of the COCOM members on a so-called harmonization project. We've had discussions with West Germany, the U.K., the Netherlands, Belgium, Italy, and next week or the week after, there'll be a delegation going to Japan. The aim of this harmonization effort is to try to standardize or to try to make more uniform controls that the various countries apply. We're focusing on re-export controls that other countries apply; submission of standardized forms; uniform information; looking at what kind of controls other nations have on technical data; we're interested in assuring that commodities are classified in a uniform manner so that they are treated the same way by the various countries; and, of course, we're looking to see that low level technology gets uniform treatment, as well.

On the administrative front, things that have affected the process is that we've had, within the last year, a reorganization of the Office of Export Administration and the export control functions. The major element of this reorganization is that the creation of the Office of Export Enforcement, under Deputy Assistant Secretary Theodore Woo -- which is over on the right-hand side of the slide -- this was taken out of the Office of Export Administration. It was a division under the Office of Export Administration. This has been moved up in importance and more resources have been devoted to it.

In general, we've had approvals for substantially increased budget and personnel ceilings. This should help in the processing of license applications. We've had some improvements in our export of services -- some very mundane things, such as doubling the number of telephones for the number of people that are there to answer questions or to track, to provide status information. We have authority for hiring technical people -- engineers, a substantial increase. We're going to devote substantial funds and personnel to improving our foreign availability assessment capability. And of course, the whole enforcement function has been upgraded. The office is also in the process of switching over to a computerized tracking system, which will be able to provide status of applications. We've also revitalized the inter-agency review process. The Advisory Committee on Export Policy, or ACEP, is the agency that meets to resolve conflicts if there is a disagreement among agencies as to what course of action should be taken with respect to a license application, or if there's a disagreement with respect to a specific aspect of licensing policy. This is a hierarchical structure which begins with the Operating Committee; then it goes to the Sub-ACEP, which is the Deputy Assistant Secretary level; the ACEP, which is the Assistant Secretary level; and on to the Export Administration Review Board, which is the Cabinet level organization. We have been averaging meetings of the Operating Committee once every two weeks to once a week for the last year. Sub-ACEP has been meeting about once a month, the ACEP on the

average of every four or five months, and the EARB has met twice during this Administration. I believe in the previous Administration, the EARB had never met.

On the legislative front, I guess we all know that the Export Administration Act expires on September 30th. There have been various proposals put in to amend the Act, change the Act, to establish an Office of Strategic Trade. Senator Garn, Congresswoman Byron, and Senator Heintz are three that have introduced the legislation. Hearings are continuing. The Administration has not yet produced a position that, as far as I know, has been made public, but I understand this is in the works and that something will be coming out shortly.

On the regulatory front, one of the major tasks that the Office of Export Administration is carrying out is the simplification of the regulations. In this regard, a simplified Commodities Control List was published, I believe, in December which has removed all the footnotes and its intended to make it much more comprehensible and easier to use. The simplification project is not an easy one. It will take some time to rewrite the entire set of regulations, which, if anyone has worked with them knows they are quite voluminous. Also, the legislative changes will have some impact on that in that it might change some of the procedures.

Perhaps the most significant item that is being worked on right now is the rewrite of the Technical Data Regulations. The main purpose of that is to integrate the militarily critical technologies list into the Technical Data Regulations. Some of you may have seen a Defense Department proposal that was put out by Dr. DeLauer some months ago. This proposal has been reviewed by the Department of Commerce and we are on the verge of issuing a revised version of this proposal within the next week or so. This will be made available to interested parties and we want to emphasize that we are looking for an open and thorough discussion of all the issues and we would like detailed and specific comments. Some of the more contentious issues that we raise or that have to be discussed is the question of academic scientific activity; what kind of controls can you put on this activity without, at the same time, inhibiting this very important process. We're going to be talking about controlling critical data, imposing controls on the transfer of critical data to Western countries. At present, these controls do not exist. We're going to be talking about establishing new country group, which could include COCOM and possibly some others. We're going to be talking about decontrolling products. Since we're tightening controls on the critical data, the natural result of that would be to loosen the controls on the end products. We're going to be talking about such concepts as general licenses to COCOM countries for certain products and we're going to be talking about comprehensive technical assistance licenses or something of that nature

which would allow multi-national corporations to function with minimum restrictions and allow them to transfer critical data and keystone equipment.

Thank you.

Mr. Brown

I think we've had a very clear exposition from the Defense Department and from the Department of Commerce on their activities. Now we will hear from the industrial side and I think the next on my list is Mr. John Schmick of Boeing International.

Mr. John Schmick

Thank you. I was glad to see Mr. Shore arrive -- I was worried about that. My plan was to get up here and hit a few fly balls and then get off before they came down, so I'll feed those to you.

I'm pleased to be here today and have the opportunity to speak on behalf of Boeing on this critical subject, so important to our national defense, the defense of our allies, our friends, and finally, that's so important to the defense and aerospace industries represented in this group today.

It would be difficult, however, if not impossible, for me to express a consensus for industry. As you know, our needs, our concerns, and our problems are certainly as diverse as the products we produce. Nevertheless, I hope that my comments today will reflect many of the concerns or attitudes that industry has on this subject. I'd like to say that this conference has provided an excellent forum for an exchange of views, a better understanding of the policies and procedures, and has answered, already, to this point many of industry's questions. A thorough understanding of these procedures and how they apply is essential to the success of our security assistance and international collaborative programs.

We at Boeing have been following with great interest the evolution of the improved policies and procedures under the initiative of DOD and others and as with any change, we find some facets will be easier to accommodate and be more effective than others. So my remarks today will go beyond the purely defense-related issues and aspects, and attempt to express a broader point of view encompassing commercial concerns, as well.

Getting ready to come and speak to this group a few weeks ago, President Reagan made a comment while he was on the West Coast with the Queen, and he said something to the effect -- I don't

have the exact quote -- I'd like industry to get out there and sell the pants off that foreign competition and my Administration is going to help you in every way. I think those were welcome words by those of us of industry.

The leakage of significant military or consequential commercial value technology to the Soviet Union and other potential foes is of serious concern to all of us and the movement to develop effective and rationally-applied procedures and controls is fully supported by industry. In this regard, the procedural recommendations of the recent DOD Directive 2040.XX, if it hasn't changed, on technology transfer are most welcome and certainly justified. Our understanding of this procedure, however, leads to both positive and negative conclusions from an industry point of view.

Let me address the positive points first. This procedure, centralizing the decision process in the DOD, should pay big dividends for the total effort. All of the Government departments, the Services, DOD itself, and equally important, industry, will all benefit from a consistent application of these policies. This should serve as an assurance to our own industry, as well as to our allies. Also, the new procedure, with its international technology transfer panel and sub-panel, makes clear who the decision-makers are and can facilitate industry access to those people for consultation on license and technology issues or related questions.

For those of you who, like myself in the past, have chased a license request through the halls of the Pentagon and ended up in some remote corner talking to someone who doesn't know why he's even in the loop, you can appreciate the benefit of this feature. I hope we don't start a stampede to Dr. Bryen's office.

On the negative side, however, the new directive appears to be silent on the subject of trade benefits which can and do accrue from selected technology transfer, particularly in commercial products. I'll say more about this in a later chart.

Also, the procedure would appear to require each transfer be justified on the basis of a demonstrated benefit to U.S. national security. This would indicate someone must be an advocate for that position -- not that we in industry are above taking a position on that or expressing an opinion from time to time, but that's not traditionally our role.

One could conclude that under this interpretation, denial of requests is much easier than approval. Demonstrating how an approval would be detrimental to our national security might produce a more balanced result.

TECHNOLOGY TRANSFER

NEED/JUSTIFICATION FOR IMPROVED CONTROL

- MINIMIZE TECHNOLOGY LOSS TO USSR
- DOD DIRECTIVE 2040XX WILL CENTRALIZE DECISION PROCESS IN DOD
 - + INSURES CONSISTENT POLICY APPLICATION
 - + DECISION MAKERS ARE IDENTIFIED
 - SILENT ON POTENTIAL TRADE BENEFITS
 - MUST DEMONSTRATE BENEFIT TO U.S. NATIONAL SECURITY
- COOPERATIVE INDUSTRY/USG FORUM ON MCTL

The last point on this chart alludes to the outstanding co-operation between industry and DOD on the development of the military critical technology list. People at Boeing who have been involved in participating in that development tell me they are most appreciative of the good working relationships and a continuation of this spirit of cooperation is essential to a smooth functioning procedure.

Now I'd like to turn to some specific comments on this subject as it affects industry in the international marketplace.

We at Boeing are keenly aware of international competition, particularly in a commercial airliner market. I don't need to elaborate for this audience the impact that air-bus industries has had on the commercial market, at least in the free world. The staggering cost and financial risk required to launch a new commercial aircraft prohibits an individual company from shouldering this burden alone. We are forced to turn to the international industrial participation and seek partners to share in the financial risks and ensure access to markets which might otherwise be essentially closed in the absence of industrial involvement. In return for this, foreign industry expects jobs and profits from their share in the venture. Equally significant is their appetite for increasingly higher technology. Simply put, the technology of their involvement must be interesting and have tangible long-term potential for their industry. In this regard, I'm talking about industries in the COCOM countries with whom we at Boeing and other major U.S. corporations have had extensive experience.

The final point on the commercial aspects of technology transfer is the importance of prior agreement and understanding of export restrictions that will be applied to end products resulting from these international joint ventures. Industry is prepared to take the risk to retain their position in the international market but must have the full cooperation and consent of all of the governments involved at the onset.

On the space side, international participation is desirable, as these programs transcend political boundaries and must have political cooperation. For example, we at Boeing recently delivered a small scientific satellite to the Saab Corporation in Sweden, who in turn is providing a complete package to the Swedish Space Corporation for launch on the European . . . booster next year. A derivation of that product has received a lot of international interest and I am concerned about its survival within the evolving technology restrictions.

Finally, in the NASA Request for Proposal on the space station studies, industry was asked to include international participation. However, when it came time to process technology assistance agreements for the purpose of entering into discussions with potential

TECHNOLOGY TRANSFER

INDUSTRY CONCERNS

117

- COMMERCIAL
 - WORLD MARKET REQUIRES INCREASED INTERNATIONAL INDUSTRIAL PARTICIPATION
 - FINANCIAL RISK SHARING
 - MARKET ACCESSIBILITY
 - FOREIGN JOBS AND PROFIT
 - TECHNOLOGY SHARE MUST BE "INTERESTING"
 - PRIOR AGREEMENT/UNDERSTANDING ON END PRODUCT EXPORT RESTRICTIONS
- SPACE
 - INTERNATIONAL COOPERATION IS DESIRABLE
 - NASA AND DOD MUST COORDINATE
 - INDUSTRY NEEDS CLEARER GUIDANCE

European partners, that request was returned without action. These occurrences, although not devastating to U.S. industry in their efforts, as a minimum leave our allies confused. So clearer guidance up front on that would be greatly appreciated.

Now some comments on the military aspects of technology transfer. In many respects, the same considerations and pressures that apply to the commercial market apply to the defense market. For example, we at Boeing have not given up on the possibility of a joint development program with some or all of our NATO allies. We're bolstered in this endeavor by our NATO AWACS experience, which we believe in every respect has been an exceptionally successful program for industry and the NATO military posture. But again, financial risk-sharing high technology, which equates to technology transfer, and economic benefit are the major international factors which will come into play and determine the success or failure of these joint ventures. Comments yesterday by General Gast on the importance of industry involvement during the MOU process are most welcome by industry. If these factors are not addressed up front, we'll be forever unscrambling the egg.

Additionally, technology transfer must be rationalized in the presence of the continued need for strengthening our alliance defense, and that's not an easy task and certainly the Department of Defense has the charge there.

Finally, the international technology panel must be equipped to deal with what I call grey areas. That's been alluded to by other speakers. In this case, the areas are where degrees of technology transfer are justified and required to produce a credible end product. Typically, I have in mind issues which don't lend themselves to being looked up in a handy reference book. STEALTH is perhaps an example of that kind of issue -- when is it, what is it, how much is it, and so on. I'm sure industry will have a lot of questions as we proceed to follow the development of joint programs like the long-range stand-off missile.

Some general comments, I think, are in order on industry's responsibility. We are well aware of the absolute necessity to protect our technology advantages and intellectual property rights. We know the investment in people and resources that went into those research efforts. When I spoke of technology transfer as related to the commercial products, I referred to that which is essential to build a competitive and successful product -- and no more, with "no more" underlined. I think we all covered our corporate research in that regard.

Also, restrictions in this area must not stifle the commercial creativity essential to the evolution and application of technology. I think most of you know that commercial technology can be applied to consumer products, typically within about two

TECHNOLOGY TRANSFER

INDUSTRY CONCERNS

- MILITARY
 - COOPERATIVE WEAPON DEVELOPMENT IS SIMILAR TO COMMERCIAL WORLD MARKET
 - RISK SHARING, HIGH TECHNOLOGY, ECONOMIC BENEFIT
 - NEED FOR STRONG ALLIANCE DEFENSE
 - IT² FUNCTION MUST BE CAPABLE OF DEALING WITH THE GRAY AREAS
- GENERAL COMMENT
 - INDUSTRY KNOWS IT MUST PROTECT ITS TECHNOLOGY ADVANTAGE
 - RESTRICTIONS MUST NOT STIFFLE COMMERCIAL TECHNOLOGY DEVELOPMENT AND APPLICATION

years of its arrival. It sometimes takes two to three times that long for it to reach our military and defense products. Perhaps that's a subject for future ADPA conference.

A final point on distinguishing between commercial and defense technology. It's becoming increasingly difficult. To deal with these issues is very important. These dual use situations and strategic trade cases must be carefully, but thoroughly, examined to get the correct answer.

I couldn't pass up this opportunity to suggest for consideration what I've called a refined approach and perhaps it's nothing more than just helping see our way through this maze. This is prompted, though, by a concern about a comprehensive treatment of industry's investment in its new products. Let me try to explain this idea.

While the military critical technology list is an excellent basis for the fundamental definition of technology in question, a more definitive control document with precise and clear guidance which recognizes (1) the existence of foreign availability of technology where it exists, and (2) the needs of the Soviet and Warsaw Pact military. This would be helpful to decision-makers as well as those of us in industry responsible for planning our future international programs. Under this approach, DOD would retain total responsibility for the defense cases but the IT² panels would advise Department of Commerce and others on non-military cases.

The first step under this approach would require the Department of Commerce to verify whether the item was military critical technology, which I'm sure they do already, and if it is not, the existing procedure, whatever that may be, would apply. If it is, the Department of Commerce would take input from the IT² and others in the decision process and then proceed to its conclusion.

In the event of a dispute over a Department of Commerce or any Department final decision, for that matter, recourse would be available through some super-group comprised, as I've suggested, of at least those five departments with senior representatives, chaired by perhaps the National Security Council which could bring sensitive national input to the decision process. I've not researched this, but it appears that such a process might be consistent with current departmental charters.

Well, on that thought I'm going to stop and say in summary that we believe the DOD procedure 2040, which is now evolved, is a needed tool to help stem the tide of technology leakage. The directive, coupled with a balanced application taking into account the world trade situation, the need for superior Alliance weapon

TECHNOLOGY TRANSFER

REFINED APPROACH

- MCTL IS EXCELLENT BASIS FOR A CONTROL DOCUMENT, WHICH:
 - RECOGNIZES FOREIGN AVAILABILITY
 - SOVIET MILITARY NEEDS
- DOD IS RESPONSIBLE ON MILITARY CASES
- DOD (IT²) ADVISES DOC, NASA AND DOS
- REQUESTING AGENCY IS RESPONSIBLE FOR THEIR OWN CASES
- DISPUTES RESOLVED BY "SUPER" GROUP BY MAJORITY VOTE

VOTING

- DOD
- DOS
- DOC
- USTR
- DOE

NON-VOTING

- NSC – CHAIRMAN
- ATTENDED BY OTHERS AS APPLICABLE

systems, and overall economic factors can be beneficial to our combined interests.

Thank you.

Mr. Brown

I found that an interesting exposition of at least one industry view. I should just comment that the super-group John referred to does, in fact, exist. There is a so-called senior inter-departmental group chaired by Bill Schneider, our Under Secretary of State for Security Assistance, Science, and Technology, which is supposed to perform at least some of the functions that Mr. Schmick wants performed.

Our fourth speaker and last panelist is Mr. David Shore. I will turn the microphone over to him.

Mr. David Shore

I feel like the caboose on a long train. There's been a lot that's gone on and there's a tendency at this point to find that anything you might say has already been said.

But I'd like to start off with a question, and the question is, is there anyone in this audience who has difficulty in knowing how to approach a problem of foreign export for one of your products? Do any of you have problems knowing where to go? That's my perception, that getting from the global to the particular, the problem for many of you in this room is precisely that. You don't have a wiring diagram, a clear exposition of where to go and who to see on your particular problem, doing it in such a way that you don't spend days or perhaps weeks in getting it done.

So my first suggestion or recommendation is perhaps this is something for an organization like the ADPA to recognize and put together a simplified wiring diagram that many of you, or maybe most of us or all of us in this room can use. Recognize, too, that with the movement of people, this is a document that should be kept updated because people have a habit of changing their jobs. So that's my first contribution to helping the procedure. We have found in our own company, RCA, that after our divisions understand how you do things with the Department of Commerce and that it does take time, we are able to plan our efforts and get the approvals through. I guess our concern, and perhaps that of industry, is more about the future. What is going to happen with the various activities? For example, we know that there are a number of tools that were in the original 1979 Act which could help make sure that the U.S. did not suffer as much or more than the governments that were trying to restrain from getting our information. There is a provision about foreign availability.

This really hasn't gotten too much attention in the past. In the effort to expedite things, there is the qualified general license authorized in the provisions of the Act. The processing delays have been found rather onerous so that many of the exporters, most of them, have opted not to utilize these procedures.

The next point that we are concerned as these new procedures evolve is that we will continue to grow a body of language and documentation and regulation which will be even more incomprehensible than it is today -- things that simple like myself find difficult wading through. Our concern also is the military critical list and I think our concern there is that in the effort to develop a list that will save us and let's-be-safe-instead-of-sorry, the list will grow and grow, and like all lists, will remain forever more. This, despite the fact that our technologies are evolving so rapidly. It's an old cliché that our solid state technology goes through a generation every three years. It doesn't behoove us to protect the technology for solid state 10 years ago because we don't even make the stuff anymore. I guess our concern is that as the list will grow, we will find ourselves more and more locked into a state where we can't export anything.

I think underlying our concern is this. We have seen in another area, the ASPRs, now called DARS, how over the years to prevent problems that ever occurred in the past we have managed to develop a system of acquisition whereby instead of taking maybe 4 years to develop something like POLARIS, the newest generation system may take us 20 years. And when you come right down to it, the only way you can protect something that takes 20 years to field is no way at all. If it takes 20 years from the time you start a product to the time you field it, there is no way that you are going to be able to control the intelligence, the technology that was evolved many years before it gets into the field.

We should avoid, if possible, a repetition of this terrible dilemma we have in acquisition. Avoid it in the technology transfer area and instead, put a focus on those very key technologies or those very key bits of technical data that can make or break us as a country, and instead, not spend endless money on R&D -- that of course is not practical. Instead, spend every effort that we have to make sure that what we develop in our universities and our company laboratories gets into the field as soon as possible. That, in the end, is the way we can best protect our technology lead by remaining a leader, not a follower.

Thank you.

Mr. Brown

We've got a fair stack of questions here. I think I'll just take them up in the order in which they appear in this pile.

The first question is addressed to Mr. Lindstrom and Mr. Hoydysh with respect to reorganization. Does the Administration have a position on moving enforcement to Customs in the creation of an Office of Strategic Trade?

Mr. Hoydysh

The Administration does not have a formal position on this issue yet, as far as I know. I would say that the Commerce Department would probably generally be opposed to such a move, but the Administration has not come forward with a statement of policy in that regard.

Mr. Lindstrom

I have really nothing to add to that. It is under review, all these issues are under review at a very high level in the process of developing an Administration position on the Export Administration Act, so I think that any comments that we might make from the DOD side would be premature and I don't want to jeopardize that process.

Mr. Brown

Question to Mr. Hoydysh -- how are those who are developing the revised Department of Commerce technical data procedures to limit transfer of technology coordinating with the DOD technical committee? How does Bill Schneider's group contribute to any coordination?

Mr. Hoydysh

We've taken the proposal that Dr. DeLauer circulated some months ago and it's been reviewed by a Department of Commerce technical advisory committee; it's been reviewed internally by the Department of Commerce. We will have a revised draft which will be circulated to the Federal agencies and to industry and to the academic community and any other interested parties and then we will begin the process of soliciting comments, looking at them. So the coordination is, at this point, just about to begin. We haven't really been doing any day-to-day coordination on this process.

Mr. Brown

Mr. Lindstrom -- how and when will the new technology release guidelines be available to industry and specifically, those on composites, FX fighter sales, INS, night vision IR?

Mr. Lindstrom

I think I'll defer on that question for the time being. We'll answer that specifically with respect to a specific company that has requests on that. I'd rather not answer those right at this point.

Mr. Brown

I see a question has been addressed to me. Has there been any change in the U.S. posture on arms exports to Pacific and East Asian countries as a result of the Secretary's recent visit to PRC, Korea, etc.?

There's been no change, certainly, with respect to exports to Korea, Japan, the friendly countries in East Asia. I can't really speak to the question of the PRC, because that is kind of an evolving situation. There's a lot of work going on in that area. You'll all recall the August communique in which certain broad conditions were laid down that we would not exceed in qualitative or quantitative aspects sales to the PRC of the pattern that had been established in the past. But beyond that, the fact of the matter is that it's still very much a matter under consideration within the interagency process.

Question

Would you comment on Taiwan, please?

Mr. Brown

That's what I was referring to with respect to Taiwan. That is, the August communique with respect to sales to Taiwan, that we would not exceed the previous high points in terms of quality and quantity. But the PRC aspect of that, having to do with the levels of technology and so on, are still very much a matter of internal argument.

A question to anyone on the panel. We've heard a lot from OSD, Commerce, and State, but are there any activities at the individual military service levels and if so, what are they and how do they relate to this problem? Can anybody answer that? Can anybody perhaps in the audience answer that?

Mr. Lindstrom

I'm not sure that I can speak for the individual military services. With respect to what we've been talking about, though, the services, as I think has been indicated, are intimately involved in the process. They are involved in both the technology

transfer and technology exchange process through a whole range of existing DOD organs designed to do just that. So the answer is yes, they are intimately involved as they always have been and will continue to be.

Mr. Brown

Certainly the NDPC operation is kind of central to that, to the answer to that question.

Mr. Lindstrom, what procedures are in place to sort out service allegations of advanced technology that could actually be efforts to keep a high level of manufacture in service-operated facilities? I'm not quite sure I understand that one.

Mr. Lindstrom

I'm not sure, either.

Mr. Brown

Could the author of that question rephrase it?

Question -- (Cannot be understood)

Mr. Lindstrom

I don't think the services present any position within DOD without a very adequate basis for it. Obviously, they have a responsibility and we at DOD have a major concern with the industrial base and the ability to produce certain technology in the United States. I would expect that would be a concern that would be expressed by the services, but whatever concerns are expressed, they are carefully reviewed at the DOD level. That's part of the process and I think has been for quite some time, but it certainly is now and we take a very careful look at it. We don't just accept things at face value if we believe there is a question about them. But I would say the services are highly responsible in the positions that they give to DOD. We rely upon them in our process, as I think you're all aware, and we think the process in general works very well.

Mr. Brown

I might add that I think the problem alluded to is perhaps more a Congressional problem than a service problem. That is, to maintain an arsenal at full production in one or another Congressional District. We certainly have run into that two or three times in the past year.

The next question has to do with enforcement and I think either of the two government panelists, perhaps, could answer it. When we learn of a non-COCOM country manufacturer who has passed advanced technology, what action is taken against the country or the foreign manufacturer, and is a list of problem countries or manufacturers available?

Mr. Lindstrom

I'll defer to Commerce because that's their primary responsibility to give the first answer to that and then I will supplement it.

Mr. Hoydysh

I'm sorry, I'm not really that competent to talk about the enforcement aspects of it. I'd hate to give an answer that might not be entirely correct. I could provide the answer to whoever asked that, actually.

Mr. Brown

Whoever asked that question, why don't you take it up after the panel. No list exists that I'm aware of.

Mr. Lindstrom

Let me just say that I think that would be a good idea. This is a primary Commerce function. We at DOD, because of the foreign availability question, do have an interest in it. When these questions arise, we are part of the interagency process. We have, in consonance with the other agencies of the Government, taken steps to resolve those problems. I think that DOD is very cognizant of them and, in fact, has often taken a significant role in seeing that those problems are solved, but we do that in consonance with the agencies who have the responsibility for doing so. We support them in their efforts, but there have been and there are ongoing efforts to solve those problems. They are not being neglected.

Mr. Brown

Here's a question for Mr. Shore. How do you control technology available from open literature not utilized by the U.S. but recognized, obtained, developed, and utilized in weapons systems fielded by the Soviets? There was an earlier question that we didn't get to earlier this morning that made much the same point. How do you control the media, the professional journals and the like, and in fact, are they controllable?

Mr. Shore

It seems to me that we have a tendency in this country to go through cycles. I recall about 15 years ago, before you could give a paper at the IEEE or AIAA you had to go through a clearance thing. I think what has happened over the past decade or so is that we've gotten a little bit lax in doing what we know we should do, and that is to get a review of our papers that are to be given, especially at the unclassified meetings. My suggestion, then, is that we reinforce what already exists and what is already required rather than set new rules, additional rules overlaid on what we have today. Secondly, I think we ought to recognize that not all papers are earth-shattering. If you go to a symposium by the IEEE, you will find paper after paper on subjects that were given six months ago, a year ago, or two years ago. In fact, one can question the selection process that takes place on papers. Having been involved in some of those conferences, I know what happens. It's considered professionally good to be able to give a paper and too often we approve papers for presentation that really don't add too much to the situation. I do feel that there are meetings in which a big subject like command control communications and intelligence, C³I, as an example, take place where a number of unclassified papers are given, the aggregation of which now gets to be pretty important and perhaps classified. In that particular case, as I understand it, being very specific, Don Latham, who is in charge of C³I in OSD, is taking specific steps to reduce the occurrences of this sort of thing. Then when you get to the universities, I'm really not equipped to talk about how you stem the tide of papers that could come out of there. The only thing I can see to mitigate it is that if a paper comes out of the university and it's on something really new, the end product is usually 20 years off for fulfillment. I'm right now worried about our posture vis-a-vis the USSR for the next 5 years.

Mr. Brown

We have another sort of enforcement question which I'll put to the panel, and in which the State Department is also involved so I'll have something to say about it myself. The question is, when transfer of technology is licensed and the foreign recipient ignores third party transfer restrictions and disseminates the technology of hardware to others, what help will the U.S. Government offer to stop this violation?

Let me take it from the munitions list point of view, because it has happened more than a couple of times. It becomes, when it's a foreign recipient, incumbent on the Department of State to intervene with the foreign government. In some cases, the foreign government will have conducted the transfer; in most cases, unfortunately, it is a foreign firm. As Steve Bryen mentioned this

morning, the export regulations of, particularly, most European countries are nowhere near as tough and comprehensive as our own, so that in some cases, the foreign governments concerned have no legal recourse to impose penalties or sanctions or whatever on the firm. One of the new initiatives of this Administration has been to try to get foreign governments -- a couple in particular that we're concerned about -- to sort of sign an MOU that in fact they will take responsibility for such transfers. We have had fair success so far. I don't know that it's been put to the test, but at least we have worked out a procedure with one country and are in the process of doing it with a second which at least should begin to alleviate the problem. But the fact is that we do protest and sometimes to good effect. In other words, you can, by job-owning if you will, sensitize a foreign government to try to clamp down on really egregious behavior of one of its citizens. But maybe either Defense or Commerce would like to comment on that.

Mr. Hoydysh

I can only reiterate that the same kinds of procedures would apply in the dual use commodity control area. Obviously there are certain penalties for violating the Export Control Act, and specifically re-export controls, to the extent that the foreign company violates those and the U.S. Government can get hold of them if they're in the United States or they can deny certain privileges to them. It can impose direct penalties, direct sanctions on them. But if the company is entirely a third world country or somewhere in COCOM and we have no legal ability to do anything to them, it becomes a question of negotiation and informal discussions and trying to apply pressure or convince the foreign government to do something about it. It's one of the roles that the COCOM harmonization project has that the Commerce Department is in the process of carrying out now; to discuss such matters with the other governments to see how we can standardize the procedures.

Mr. Brown

Another question to Boeing. You want the burden of proof to be provided by those who would deny an export. As a practical matter, this means much research by the few in the government system. You also want a more responsive system. Would it not be better to place the burden of proof on industry, since industry has both the time and resources?

Mr. Schmick

Maybe I could use that to justify a bigger budget for my part of the operations. That's a difficult question, and it was with

some reservation I made that point. It's been clearly stated by some of the panelists and I believe it's clear in the writings that have led to this procedure that it will only be justified on the basis of a demonstrated benefit to U.S. national security. I guess, to draw a fine line, it doesn't address the issue of when it doesn't make any difference. I'm only expressing here a concern that I wouldn't want to see a policy and procedure established which just made it very easy to deny requests and didn't have that balanced approach. Perhaps this is philosophical in nature, but that was the point that I was trying to make, that we need to come up with procedures which cause everybody to look at it from all points of view, particularly as it applies to technology that is in our commercial products.

Mr. Brown

There's a question addressed to Mr. Hoydysh. There have been many instances of licenses hand-delivered to exporter services which have not been logged into the Department of Commerce until several days afterwards. Also, information indicates that a case is not entered into the computer system until after the case has been approved, thus not providing a tracking system for the information to be provided to the exporter. Would you care to comment?

Mr. Hoydysh

No system is perfect. When you deal with 100,000 or so licenses, or whatever the number is now, 90,000 licenses a year, these things will always happen. Even if it's a very small percent, 1 percent, you're still talking about a significant number of licenses. Licenses do get lost; we do make mistakes; people enter it into the wrong place. We make every effort to try to minimize that. We make every effort to try to control that, but I think in any organization where you have a lot of people and a lot of paper flowing, this thing will happen. It doesn't help that particular exporter to tell him that we've only lost 3 licenses this year, if one of the 3 is yours, but I really don't have a better answer than that.

Mr. Brown

This is not so much a question, but a suggestion that has been made and really, I guess, addressed to the ADPA management staff. The wiring diagrams on who to see and where to go for obtaining various export licenses information, help, should be attached to the transcript of these proceedings, which will be sent to all attendees. I must say that sounds to me like a splendid idea. The only problem is, of course, that was pointed out, people change, names change; still, the offices tend to remain reasonably recognizable. It strikes me as a sensible proposal.

There is also a question of how one obtains a copy of the militarily critical technologies list.

Mr. Lindstrom

Well, that is still a classified document. Of course, many of you who have taken part in the process have copies of it, have reviewed it with those clearances. However, I think the question is more directed at what are we doing about getting unclassified lists. We are working on that problem and we hope to have that resolved in the near future. Obviously, there will be some deletions but if we can solve certain security aspects, which I hope we can, we are working on trying to get the unclassified list. But I can't give you any definitive answer on that at this point.

Mr. Hoydys

Let me just add to that. A portion of the MCTL which deals with semi-conductor manufacturing equipment, will be part of the proposal for rewriting Part 379 of the Technical Data Regulations. That part has been made available rather extensively by the Defense Department and will now be made further available by the Commerce Department. So if you've never seen the list, by looking at that one segment, you'll at least get a flavor for what the entire list will look like.

Mr. Brown

Speaking of lists, another question, probably to Mr. Lindstrom. Steve Bryen said that the T² panel was devised to deal with dual use problems. The question is why, then, does the draft DODD also cover U.S. munitions list items?

Mr. Lindstrom

I think I'll defer on that to Dr. Bryen, but obviously you have a lot of interrelationships in this whole issue of technology transfer and technology exchange. I think that you would not be able to have a comprehensive policy, which the directive is intended to be, unless you do cover the munitions side as well as dual use. However, the primary focus is clearly on the dual use because that's where the great majority of the problems have come and we expect will continue to come in the future.

Mr. Brown

A question has been directed at me and this has to do with the re-export problem. The questioner points out that the whole NATO RSI system or policy and the MOU process invites this re-export dilemma. He points out that some give us three years before our patience runs out and we become sort of wholly

protectionists, and wants to know when will our patience run out on the re-export question.

Let me say that I don't want to exaggerate the re-export problem. A lot of the licensing, co-production, and so on that we've done has, in fact, fulfilled precisely the objectives that we had in mind, that the companies concerned arrange in advance as to what the rules will be with respect to re-export. If it's a munitions list item, it also involves the United States Government, the State Department, which has to authorize that third country transfer. What I guess I was pointing out was that it's a growing problem in the sense that there are more people coming to us with awkward third country transfer proposals and by and large, we turn them down. We turn them down for one of several reasons -- either because the proposed recipient is one that we are maybe forbidden by law to sell munitions list items to, specifically, for example, Chile and Argentina; it may be a question of policy, as in the case of Iran and Iraq, as long as the war goes on; it may be because we are abiding by internationally recognized sanctions, in the case of South Africa; it may be because there are real competitive reasons for not doing it and this has come up (I won't mention names or items) -- I can think of a few third country transfer requests, not for entire systems but foreign systems that incorporate a major U.S. component where they were turned down on the grounds that the sale of that particular item would be in direct competition with U.S. industry. I guess the only point I was trying to make in saying that co-production carries with it these downstream liabilities is that they tend to be long-term -- 10 years or so -- and as somebody pointed out, we're dealing by and large with next year's problem or two years downstream, and so often the potential difficulties don't get recognized early on. Now we've been in the co-production licensing game long enough to begin to see this bow wave of problems building up. I don't say that they're impossible to deal with; we still really do have a legal handle on controls. It's just becoming kind of diplomatically difficult and in some cases, quite unpleasant. It's just something that we have to keep in mind on the Government's side, and which I think industry needs to keep in mind in terms of your future position, competitive position, in the world arms market.

Now, let's see if we have any more questions. This will be the last one, because Dr. DeLauer is here and, as you know, he is giving the closing address. The questioner points out that Canada is a particular problem and probably in many respects, our relations with Canada are closer than anyone else in the world. The charge made by the questioner is that Canada regularly ships electronics equipment to Cuba, where we cannot because of legal restrictions, and that this electronics equipment, according to the questioner, has often dealt with U.S. technology. The question is to Mr. Lindstrom, is there a solution to this sort of problem?

Mr. Lindstrom

There are obviously always solutions to problems, if that is a problem. These questions do arise; however, I think that type of situation is, again, the primary responsibility of the Department of Commerce and I think I'd have to direct that in the first instance to Mr. Hoydysh for his comments on that.

Mr. Hoydysh

We would certainly be interested in knowing more details about the company that's doing this shipping, and we'd turn that over to our enforcement people. I have no knowledge of these and I don't know if anybody in Commerce does, or whether this company is known or is under investigation or anything of that nature. But certainly, if the company is in violation of U.S. export laws, if they are shipping things contrary to our rules, then we would be interested in knowing who they are and take steps to stop this. Other than knowing what is involved -- and it's conceivable, what they're shipping is . . . equipment which doesn't require a license. Without knowing more specifics, there's really not any way to answer the question.

Mr. Brown

On that note, let me thank the panel for a very informative set of presentations and responsive answers. I thank you all for your attention.

CLOSING SESSION

Mr. Shillito

Again, we thank our panelists in all of these sessions for a superb job in covering the fundamental issues as regard foreign military sales and technology policy.

Our wind-up session will be conducted, as you note in your agenda, by Dr. Dick DeLauer, the Under Secretary of Defense for Research and Engineering. I'll make this introduction brief. Dr. DeLauer is an industrialist, a scientist, an author, an educator, and now, even maybe a statesman -- even maybe. In his position in Defense in today's environment, he acts as the principal advisor, and in fact the person responsible for scientific and technical matters, for basic and applied research, development and acquisition of weapons, C³, atomic energy, the intelligence resources, and, of course, acts as our senior governmental defense acquisition executive. He has an extensive industrial background

in addition to the now extensive governmental Defense background. Dick has offered to answer questions and what we would like to do is ask Secretary DeLauer to make any and all comments that he might see fit as regard the subject that we've just discussed up to now and/or any other matters that he thinks warrant our consideration, and then we will throw questions at him as we see fit. Dick, we're delighted to have you.

The Honorable Richard D. DeLauer

Thanks, Barry. That's the best introduction! You didn't call me a bureaucrat and so I feel better already. When I came into this job, one of the fellows I talked to before I showed up was Barry, and he said, since he was a veteran, "You'll never know what kind of a job you're doing in an explicit way, but if there's a big long line of service people lined up outside the Deputy Secretary's door waiting to go in and talk to him and complain about you, you know you're doing your job very well." Let me tell you, that line is still long and we've got two Deputy Secretaries. I think they'll wear them out before they'll wear me out.

One reason that I thought that this might be a good speech to accept, a good time to come over and talk to people on this particular issue, is that I guess at no time have we been in a greater state of flux about what's going on in this area than we are right now. Probably more ambiguity than ever before. One thing about the previous Administration, there was no ambiguity; you didn't get to do anything. But that makes it easy to administer.

In this case, we came in with a view that the whole question of our foreign military sales, the whole question of working with our allies and friends, was going to be part and parcel of our policy and what we were concerned about was that it was only with our friends and, not through any negligence on our part or negligence on the part of our industry, that our not-so-friendly adversaries would also get the benefit of a lot of the things we're doing.

Therein lies a little bit of the trouble, as you've probably talked about -- technology transfer policy, technology transfer procedures -- all of these were things that were covered at this symposium, so it's still with us. At the same time, this policy was getting a little bit of a re-examination and stiffened up a little bit about technology transfer. We also had available for the first time, strong, hard intelligence information as to just how extensive the loss of our technology was. And we decided to make a lot of it public and more and more people became aware of the problem; more and more people had various solutions to how it should be handled. That in itself was one that put a certain

amount of obstacles in the way of doing business. Now, we're trying to get at that and some of those were discussed. Whether they're adequate or not, I guess you'll tell me when we get to the question and answer period.

The other thing is that at the same time there was a depression around the world. Some people call it a recession; some people call it a depression. That brought out all the protectionist instincts in every guy that was going to get elected every two years, and we ended up with things like certain constraints on what, indeed, could be purchased abroad, certain constraints on things that we had to have as far as content -- the infamous Specialty Metals Clause in the last continuing resolution. We were able to handle the Marshall Plan, but we can't handle the Specialty Metals Clause, and it's caused more problems than any particular one thing that we've had as a stumbling block in the two years I've been in the job. So we're trying to do something about it and I think we might be successful if we're just not hysterical, take it one step at a time, and work the process that got it in there -- work that process and get it out. I think that we're getting pretty well to the point where I think everyone now has been talked to and something can be positively predicted that we might have a pretty good result. I'm not so sure that everybody's going to be happy about that because it won't have that particular problem as a whipping boy and they'll have to discover something else that's holding up the whole parade.

My perspective is the following on this. When I came into the job, Bill Perry had pushed and been very successful in establishing the concept of the two-way street, and less than successful in really establishing the family of weapons as a concept of implementing the two-way street. I personally just did not believe, just from my own experience and what I was successful in in the technology area in working with, particularly, the Europeans and the Japanese, that government-to-government MOUs were going to solve the problem. . . . people together to respond to a cold RFP. If I was a critic of my own program, I would say that we're less than successful in that one at the present time. I still have some hopes for it, but that still has been a little bit of a problem and it's been focused mostly on this whole question of technology transfer. I think we have to address that question head on. I think we have to really examine the procedures. We really have to examine whether or not the road to having this early IR&D or R&D involvement with industry-to-industry can really be implemented across the oceans and I'm looking at that very carefully. Just a case in point, I signed a letter last night to all the Services telling them that they're misinterpreting Chapter 6 of the Arms Export Control Act. That little chapter has to do with leasing of equipment for R&D to our friends overseas, and I think the Services have been misinterpreting that on the wrong side; they have used some of this technology transfer issue as a

basis for withholding that kind of support. I told them they've done it wrong, they have to go back and re-examine it. I think we have the same problem in some of the procurements. People have taken the technology transfer issue and essentially have over-reacted to it and have not done the things that should be done with the regulations in place.

We've got a lot of reciprocal security agreements. Those reciprocal security agreements are perfectly valid when enforced, and that should permit, with the proper kinds of administrative steps taken, should permit the transfer of technology back and forth across the pond, and having it really a two-way street because that permits us to have European -- particularly European, where most of the agreements are with our NATO friends -- have technology transfer from them to us. I've got a case right now where a young English firm, a small, new firm in the microwave area, I'd like very much to get hands on the brains of the young man running it and have him contribute to some of the electronic warfare work we're doing at the present time. One of the things that's keeping that from happening is the fact that he's got an American subsidiary but he doesn't want to have a voting trust between him and his subsidiary, and as yet he hasn't taken advantage of the reciprocal security MOU. So we've got to work on that and make it more effective. There are complaints -- probably many in the audience that deal with the American subsidiaries of European companies claim the process is ponderous and time-consuming, and as a consequence, you're always a day late and a dollar short when it comes to responding to procurement action. I'm going to try to see if we can speed that up, or at least provide the basis for the fact that procurement actions aren't on such a time scale that you cannot take advantage of what we have in place.

This whole question of the voting trust is still one that gets people upset. I've been having conversations with quite a few people on how it can be implemented according to the statute, but still make it more palatable and more effective in a practical sort of way. I guess the guy in town that knows more about that than anybody is Marty Hoffman, and he and I have met two or three times trying to figure out how we could do something about it.

On the other hand, I think that we need more support out of industry on some of the things we're trying to do. You had Richard Perle here talking to you. Richard is in the midst of an exercise to strengthen COCOM, which has to be strengthened. Everybody has a different view of how COCOM should be used, not used, or even avoided. We need a little help with some of our friends in Europe, particularly, and Japan to help strengthen some of the aspects of COCOM, and many of you have as much, or in many cases, through your subsidiaries or through your licensees or through your partners, to make your voices known to the people that are negotiating in this particular area, to make known to

them what your views are. It's to our advantage to strengthen COCOM because if you can strengthen that, then we can be more liberal in some of the other areas. It's very important to us that we keep the Soviets from taking our R&D. I had lunch with Tom Stafford yesterday, who has been in this business in all aspects of it, and he characterized it by saying, "The Soviets have the greatest R&D department in the world. It's called the United States of America." I think he's right. We're losing a tremendous amount of information out of this country. It saves them money, and particularly it saves them time. For your own self-interest, I would think that you would want to have that chopped off and restricted so that your efforts and your products would have a longer life and not be obsolescent as fast.

Those are the things I had on my mind. We're trying to fix some of the procedural aspects up. That's the quickest we can do. The statutory ones are tougher. Those are the ones that you have to talk to the people on the Hill about. While in many cases, something can be done very rapidly if you get the right guy at the right time, as a rule they take a little more effort and there are quite a few jurisdictional issues involved on the Hill in regard to who's in charge of what. But I think you can contribute. The Export Administration Act is up for either an extension, a modification, or complete rewrite. I hope all of you who have something to say about that have gotten through into the system on what you think ought to be included in that, and that's going to include all the things on technology transfer as well as licensing and the whole process of export.

So with that, why don't I open up to some questions and respond to the things that weren't covered in the preceding couple of days.

Question

What did the Department of Defense mean by the integration of military critical technologies list with the Technical Data Regulations?

Dr. DeLauer

I would like to have Tal Lindstrom come up and help me on this because he's been sitting in on the working group on that particular issue.

Mr. Lindstrom

I think that was already answered to a certain extent on the panel discussion here, but obviously the MCTL is a resource source document and the certain portions of it which deal with the same areas that are covered by those technical regulations are being integrated into them. In other words, we are utilizing that as

a document. That is an ongoing process at the Department of Commerce, being taken stage by stage. They have the primary action and we are supplying the input.

Question

Does this mean more things will be classified?

Mr. Lindstrom

It means neither more or less. It means that some things will be taken off, some things will be added on. You know, this process is a living kind of process. It's not a static thing, as the MCTL is not static. We're trying to cover those things that ought to be covered -- that data that ought to be covered, that data that is no longer necessary, we take off. But we're not trying to control things that we can't control or there's no point in controlling. We are, however, trying to keep ahead of the power curve so that we will be sure that we are controlling the things that we ought to, that are very crucial.

Mr. Shillito

Is it possible that you could talk a little bit additionally about making public the MCTL information in some kind of unclassified fashion, and thereby, hopefully, slowing down the time process? This is something that has come up several times. Could we talk about that just a moment more?

Dr. DeLauer

I think we intend to do more declassification, particularly starting with the table of contents -- I never could figure out why that had to be classified. We can then take the things that are in various levels of categorization and at least in a generic way show what's included and why the basis for classification without having to worry about line items. We definitely intend to do that. Some things never go away. I was the guy who was in charge, from the industry side, when the first technologies list was put together. So you can never get away from some of your problems no matter how long you live or what job you have, so I'm stuck with it on both sides of the plate. I remember I got in the office and I met with the inter-association group that was working this problem and I'd been the chairman of that group, so I started telling them everything and one guy stood up and said, "I'm sure glad our chairman wasn't here today -- he wouldn't stand for that kind of talk." It's hard to work both sides of the street and be consistent. You get a different job, you have a different point of view.

Question

Dr. DeLauer, are you still working on the family of weapons concept, and do you want it done more by industry than by government to government?

Dr. DeLauer

I think I have to clarify a little bit. The family of weapons concept that was originally put forth was that before the fact, we would decide who would do what to whom and we wouldn't have parallel development. The first family was the air-to-air, and then the next family was going to be anti-tank, and that's about as far as we got. Now, the air-to-air systems, we are pursuing it that way. The United States is doing the medium-range air-to-air missile, AMRAAM, with the idea of having a European consortium at a time come in and provide the capability for Europe. The Europeans, right now it's under the leadership of the English with the partnership of the Germans in the short-range air-to-air system. Now, that one I did push. As a matter of fact, I pushed very hard on the British, saying, "Look, you'd better put your money up and get started on this program or somebody in the United States will go in and invent one and then I'll be over a barrel telling them to stop inventing, that we're waiting around for the Europeans to go." They took it to heart. As a matter of fact, you have to compliment them -- with all the problems they had, they went ahead and put the money in the AMRAAM, the Germans put the money in the ASRAAM. They've got the program going, they're deciding on configuration, so that one I think we've got in hand. The tank weapons were something different. There were no two new programs. What there was was a product improvement of our existing program, which took up a period of almost 5 or 6 years, as the Europeans improved the . . . program and we improved our TOW and some of those sorts of things. Consequently, there really hasn't been a new indirect or new direct system, so that's still floating. That's one reason I've been pushing to get together early in the phase and working together in R&D. I don't think that a priori we can chop up the armament field and say you work on this and we'll work on this. I just don't think that's a viable solution. I think it was a good way to get started, because what we had was a couple of programs that were about ready to go anyway, and just doing it that way worked out pretty well. But I think that trying to rationalize the business in that sort of way is just not going to work. Competition is just too tough. Everybody wants to get into the act. And everyone is eager. It's hard enough to keep the bidding list down to a Manhattan telephone directory on our own procurements without bringing guys in from all over the world. They've all got capability now. Before it was different. There's no question -- I don't think there's any modern weapons system that one of the Alliance couldn't develop. I don't care what it is. They can develop it. It would be different cost, on a different time scale,

but not in quality. The technology is in every single one of the countries and what isn't there is the infrastructure and the resources to be allocated to that particular thing. So, that's where I think the combination of us can be well done. We have a list of things called emerging technologies and that list of emerging technologies has been a subject of discussion with the Alliance in the last year or so; at the . . . meeting next month. I will again present the emerging technologies as a cooperative effort and in those cases where we have the technology, we're trying to arrange the procedure and the process to be able to transfer that technology to people who want to pursue it. Particularly in the electronic warfare area. I think we're being very short-sighted for us not to transfer some of our technology to the Alliance. Many of those devices are well within the capability of even the smaller countries to (1) develop, (2) to manufacture, and (3) to deploy -- well within what they have allocated to a certain amount of the defense items. And they're very effective. They're very effective, and could give the opposition's numerical superiority a fit. You can do an awful lot against TAC air with a lot of EW. So I'm pushing that direction.

Mr. Shillito

There's a question here, Dick. Patents were meant to be used for U.S. industry and their product protection. What amount of information leaves the U.S. due to Soviet patent infringement? I think it would probably tie to the problem that many of our companies are having right now in that every time we patent something, that pretty much throws a license to steal into the hands of an awful lot of people, and it ties directly to that point.

Dr. DeLauer

I haven't got the statistics at hand, but I have looked at them. This must be a bigger problem for Japan and the Europeans, because they do more patenting now than we do. So the whole question of patenting -- patenting has fallen off in the United States quite a bit, whether because of this reason, Barry, or not, I don't know, whether people just decided that patent protection isn't worth a candle and they just try to go out and get the product in the marketplace and that the obsolescence rate of some of our advanced products are such that you hope to make improvements and not worry about the protection. On the other hand, let's turn it around a little bit -- not in the international area, but as you know there is going to be developed a new patent policy. It's a patent policy that the President is advocating that is much more advantageous to American business, to have a better handle on things even if they are developed under government sponsorship. I think that's going to be a positive approach toward getting more things patented. But the Europeans have the same problem. A patent is one thing -- I don't mind them stealing a patent; if it's

difficult to put into implementation, it will take them forever to do it. What bothers me is, they don't even bother with waiting around for the patent. They just try to get the product in the process and they do an awfully good job of it.

Question

In the interest of standardization in many cases, what are the restrictions on exchange of technical know-how that would promote standardization?

Dr. DeLauer

Don't get hung up on protective clothing, because that's on that list of Congressional things that I don't know what the status is. But in general, we want to promote that, not so much for standardization but essentially for the best approach to the problem. If you're going to spend money on protective clothing, why don't we get the latest information and then no matter who puts the resources in there, it's the best thing. Standardization, I think, is a notch below interoperability and I think we ought to focus more on interoperability than whether or not that black box looks like the other guy's black box. That's the area we're trying to push, particularly when it comes to communications and things like that that everybody really wants to do themselves.

Mr. Shillito

I recall a point that you made about two years ago, Dick, in a discussion not unlike this one here, shortly after you came into office and you were concerned about the increase in time as related to the development of new weapons versus -- I think you cited the P-51 and a few other things at that point and what it would take today to develop and produce the P-51. One of the points that came up during the last panel session dealt with the fact that our technology administrative controls may be expanding, are expanding, and that this, in turn, could have a developmental time problem not unlike some of the other administrative controls that have had such a severe negative impact as far as the time it takes and how to field the new weapon, and what can we do. It ties into your earlier comments on the subject -- what can we do to stay on top of this thing, to ensure that our controls, our technology controls, don't get out of hand and thereby impede the development of these major systems.

Dr. DeLauer

If the technology issue is one that is really holding up the parade, I think your analysis, Barry, has some merit, but I've always been spouting the line that that isn't the issue. You go back and look at the data. You go back to the Wright Brothers

and up to the 767 and find that once the decision was made for full-scale development until that article flew or was tested has always been about the same. It varies between 24 months and 42 months -- and the 42 months generally are just because we decide that's what we're going to do. So that's where the technology is put into the system, during the full-scale development phase. It's that dumb time in front of it making up your mind whether you're going to do it and it's that money-consuming time afterwards which says, okay, now that I've got it developed, how am I going to buy and on what schedule? That's where the time is spent, the transition from the full-scale development into production. And the time together is about 17 years, but that piece in the middle is only about anywhere from 2 to 2-1/2 to 3 years. Every single program we've had has been that way. We've tacked it down and we can demonstrate that on almost any air frame from the Wright brothers' first airplane up through the 767. So the problem is really getting into production and building it, and that's not a technology issue. I don't think that the acquisition time can be faulted and blamed on the fact that we didn't have the adequate procedures to transfer the technology. I don't think that's the argument at all.

I had a question here on my statement in regard to the misinterpretation of the leasing thing. The problem was that they felt that with this technology transfer issue, they should get tougher with permitting the leasing to some of our European friends. And that was the misinterpretation. They just closed things down based on the technology transfer. You remember, much of the leasing has to do some with instrumentation, in some cases, test equipment, things like that and they were using the technology transfer issue for that. That wasn't the case; that wasn't what we were concerned about.

Mr. Shillito

Thank you very much, Dr. DeLauer.

The single key point that I want to make as we wind this session up, without making anything in the way of a summarization, is that without question we in industry recognize the controlling of sensitive technology is very important. That has come up over and over through these sessions, and I emphasize that to you, Dick. This is indeed something that we do appreciate and do recognize. I think the point that was made by Dave Shore would be helpful as hell, as far as we in industry are concerned and it's maybe something that we should give serious thought to doing something about, in the ADPA or elsewhere, and that is be it high technology items or whatever, we do need something in the way of a very simplified "wiring diagram" so that we know who to see on virtually all and every export problem or

issue that we find ourselves faced with. Many of our companies, particularly, probably, some of the smaller companies, don't really know sometimes who it is they should be talking to on a particular issue and I think this is something we do need to give attention to, and I know this is something that is being given attention within government.

The only other thing that I'd like to say in winding up the session is again, I want to express my appreciation to all of our panel participants. Putting on a conference such as this is tough and it's not the kind of thing that the ADPA and others of us go out of our way to get ourselves involved in. In fact, we resist these things in every possible way and we invariably get pulled into them thinking it's possibly and hopefully in the public interest, but we do appreciate the efforts on the parts of our panelists, the outstanding presentations made by these individuals and the willingness on their parts to specifically answer virtually all and every question that was raised. I also want to again congratulate and express our appreciation to the ADPA and Captain Jackson in particular for doing a fine job in bringing this conference off.

Thank you very much and again, a happy St. Patrick's Day.

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